



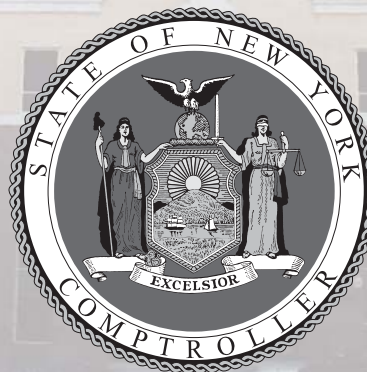
# Moriah Central School District Financial Condition and Internal Controls Over Selected Financial Activities

Report of Examination

Period Covered:

July 1, 2006 — December 31, 2007

2008M-147



Thomas P. DiNapoli

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# State of New York Office of the State Comptroller

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## **Division of Local Government and School Accountability**

September 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 Moriah 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

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### EXECUTIVE SUMMARY

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

The District reported approximately \$11.6 million in general fund expenditures during the 2006-07 fiscal year. Computer applications are networked and are used by the District in day-to-day operations for instructional purposes and to process and record financial transactions. In order to provide retirement benefits to its non-teaching employees, the District participates in the New York State and Local Employees' Retirement System (Employees' Retirement System).

#### **Scope and Objective**

The objective of our audit was to determine if the District had established effective internal controls over the District's financial condition, information technology, and Employees' Retirement System procedures, records and reports for the period July 1, 2006 through December 31, 2007. We extended our review of the District's revenue anticipation notes to July 10, 2008 in order to present the District's current position. Our audit addressed the following related questions:

- Are internal controls adequately designed to ensure that sufficient resources are available to finance operations?
- Are internal controls adequately designed over the District's information technology system?
- Are internal controls over the District's procedures, records and reports related to the Employees' Retirement System adequate?

#### **Audit Results**

We found instances where the Board had either not established critical internal controls or controls that had been established were not implemented and operating effectively. As a result the District is vulnerable to the possibility of errors and/or irregularities occurring and not being detected in a timely manner.

A lack of oversight by District officials resulted in a significant decline in the District's general fund balance from \$183,006 as of June 30, 2003 to \$39,849 as of June 30, 2007. A deficit fund balance

in the cafeteria fund grew from \$3,511 at June 30, 2003 to \$47,897 at June 30, 2007. We found that Board members did not receive adequate budgetary status reports to allow them to monitor revenue projections and appropriations. In recent years, the District has had to issue revenue anticipation notes (RANs) on a recurring basis in order to maintain sufficient cash flow for operating purposes. The amount of RANs issued has increased from \$500,000 in 2001-02 to \$1.5 million in 2007-08 with no budgetary appropriations made available to redeem the notes. This activity negatively affects the District's financial condition and is evidence of the Board's ineffective monitoring and poor budget preparation.

The Board did not adequately safeguard the District's computerized data and assets by establishing and implementing appropriate policies and procedures related to access controls, physical security, and disaster recovery. The failure to develop and implement such policies and procedures increases the risk that the District's computer assets and data could be destroyed or misused.

The District did not have adequate written policies and procedures providing guidance and internal controls related to the classification of professional service providers as either employees or independent contractors. In addition, the Board had not established a standard work day for bus drivers, and as a result, service days for bus drivers were reported inaccurately to the Employees' Retirement System.<sup>1</sup> Finally, District officials did not obtain written notification forms from optional members who chose not to join the retirement system.

### **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.

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<sup>1</sup> District officials reported bus drivers, who work four hours per day, to the retirement system as full-time rather than part-time.

# Introduction

## Background

The Moriah Central School District (District) is located in the Towns of Crown Point, Moriah, and Westport in Essex County. The District is governed by the Board of Education (Board) which comprises nine 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 780 students and 190 employees. The District's budgeted expenditures for the 2007-08 fiscal year are \$12.7 million, which are funded primarily with State aid, real property taxes, and grants.

The District reported approximately \$11.6 million in general fund expenditures during the 2006-07 fiscal year. The District's computer network is used by the District in day-to-day operations for instructional purposes and to process and record financial transactions. In order to provide retirement benefits to its non-teaching employees, the District participates in the New York State and Local Employees' Retirement System (ERS).

## Objective

The objective of our audit was to review the District's financial condition and to determine if the District had established effective internal controls over its information technology system and Employees' Retirement System procedures, records and reports. Our audit addressed the following questions:

- Are internal controls adequately designed to ensure that sufficient resources are available to finance operations?
- Are internal controls adequately designed over the District's information technology system?
- Are internal controls over the District's procedures, records and reports related to the Employees' Retirement System adequate?

## Scope and Methodology

During this audit we examined the District's control environment and its internal controls, specifically, financial operations, information technology and the administration of the Employees' Retirement

System for the period July 1, 2006-December 31, 2007. We extended our review of the District's revenue anticipation notes to July 10, 2008 in order to present the District's current position.

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 General Municipal Law, 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.

## Financial Condition

A school district's financial condition is a prime factor in evaluating its long-term ability to provide quality public educational services to its students. The Board and District officials are responsible for effective financial planning and management activities, which include monitoring actual revenues and expenditures against the approved budget, maintaining sufficient fund balance to fund current operations and to cover revenue shortfalls or unanticipated expenses, and establishing budgetary provisions which ensure short-term financing measures are properly repaid.

District management did not provide the Board with budgetary status reports. As a result, Board members were not properly informed in a timely manner as to whether District appropriations were significantly over-expended or whether revenues were significantly overestimated. The District reported a significant decrease in both the general and cafeteria fund balances in four of the last five years and increased its reliance on revenue anticipation notes (RANs) each year. The amount of RANs issued increased from \$500,000 during the 2001-02 school year to \$1.5 million (12 percent of the total District budget) in the 2007-08 school year with no provision for their repayment within the annual operating budget.

Budgetary Status Reports — It is important for the Board to adopt realistic budgets and monitor the actual results against the budgeted estimates of each fund regularly throughout the year. The annual budget is a plan of financial operations that provides a basis for effectively planning, controlling, and evaluating District activities. Budgetary status reports help ensure that the Board receives the timely information it needs to monitor spending and revenues against the annual budget and to stay apprised of the District's financial operations throughout the year.

While the Board received treasurer's reports showing monthly receipts and disbursements, they did not receive or review budgetary status reports during the period January 2005 through June 2007. We found that general fund revenues had been overestimated in four of the last five school years; most recently by \$113,238 and \$45,229 respectively during the 2005-06 and 2006-07 fiscal years. For example, for the 2002-03, 2003-04 and 2004-05 fiscal years, the District routinely budgeted for unclassified revenue in the amounts of \$381,000, \$170,000 and \$264,500 yet received only \$17,362, \$14,870 and \$12,076 respectively. Through the end of our fieldwork

in 2007-08, the District had budgeted for unclassified revenues of \$156,721 and received \$53,946. District officials did not expect to receive significantly more unclassified revenue in 2007-08.

We found that total general fund expenditures had been overspent in the 2005-06 fiscal year by \$169,184. Several appropriation accounts were significantly overexpended during this period, including the legal services (\$65,675), electricity (\$70,199), fuel oil (\$48,126), and handicapped program (\$185,916) accounts. District officials indicated that the District had experienced unforeseen legal challenges, increased utility costs and increased program expenditures during the fiscal year.

The lack of budget status reports prevented the Board from adequately monitoring the District's financial condition and taking any necessary measures to address the resulting indications of fiscal stress. As a result, district officials repeated the mistake of over-estimating unclassified revenues and were not aware of the need to make budget amendments to prevent over-expenditures.

Declining Fund Balance — Operating deficits occur when total expenditures exceed total revenues. Although operating deficits can be planned as a means of prudently using surplus funds by appropriating fund balance, this was not the case for the District. Over the past few years, instead, the District had persistent and recurring operating deficits that were not planned because of structurally imbalanced budgets resulting in fiscal stress.

The District's general fund balance declined in three of the last five fiscal years. The District actually reported a deficit of \$84,303 at the end of the 2005-06 fiscal year. The District's unreserved, unappropriated general fund balance at June 30, 2007 was \$39,849 which is approximately three-tenths of one percent of the general fund budget of \$11,866,062. The lack of any unreserved fund balance leaves the District unable to respond to unforeseen circumstances including revenue shortfalls or unanticipated expenditures.

The financial condition of the District's cafeteria fund also worsened with a reported deficit balance that grew from \$3,511 to \$47,897 over the same period. This further affects the District's general fund balance, which reported approximately \$37,000 in receivables due from the cafeteria fund at the end of the 2006-07 fiscal year.<sup>2</sup> We noted that as of June 30, 2007, the cafeteria fund reported a negative cash balance of \$14,656<sup>3</sup> and has reported a negative cash balance at

<sup>2</sup> For the 2002-03 to 2005-06 fiscal years this receivable was approximately \$38,000.

<sup>3</sup> As the District maintains a multi-fund checking account, this negative cash balance is offset by the cash balance in the general fund.

year end for four of the last five years. The potential for the cafeteria fund to return to solvency during the current year appears unlikely, as is the potential for the cafeteria fund to repay the amounts owed to the general fund.

The overall decline in fund balances is a direct result of District expenditures outpacing revenues in three of the last five fiscal years, coupled with inadequate monitoring of the budget process. The District used fund balance to fund operations and limit increases to the tax levy. However, the over-reliance on fund balance as a financing source for recurring expenditures resulted in the depletion of the District's fund balance and places considerable constraints on the District's financial flexibility.

Revenue Anticipation Notes — Revenue anticipation notes (RANs) represent a temporary source of cash borrowed in anticipation of the pending collection or receipt of certain specific revenues other than real property taxes estimated in the annual budget. The proceeds may be used for meeting expenditures payable from the type of revenue being borrowed against. Unless a budgetary provision has been made to redeem the notes, when the amount of outstanding notes equals the amount of revenue yet to be collected, the remaining revenues collected must be set aside in a special bank account and dedicated to pay the principal on the notes.

In recent years, the District began borrowing money by issuing RANs to alleviate its cash flow problems and has continually re-issued new RANs to pay off the existing RANs once they mature. The amount of RANs issued for the general fund has increased steadily from \$500,000 in 2001-02 to \$1,500,000 in 2007-08.

The District has not made any provisions in its annual budgets for redemption of the notes, nor have District officials set aside revenue collections in a separate account to be “dedicated” to pay the principal on the notes.

By failing to set aside dedicated revenues to ensure that cash will be available to redeem RANs when due, District management has increased the risk that there will be insufficient cash available to repay the principal on the notes. If the District does not take action to improve its cash flow situation, its cash position will deteriorate further.

## **Recommendations**

1. The Board should obtain and review monthly budgetary status reports to help monitor revenue projections and ensure that expenditures do not exceed amounts budgeted.

2. The Board and District officials should develop a plan to establish a reasonable level of fund balance to be maintained in both the general and cafeteria funds.
3. The Board and District officials should develop a plan for the repayment of the RANs and for the long term management of its cash flow requirements.

## Information Technology

The District relies on an information technology (IT) system for computer education, access to the Internet, e-mail communication, storing student data, maintaining financial records and reporting to various State and Federal agencies. Therefore, the IT system and the data it holds are a valuable resource. If the IT system fails, the results could range from inconvenient to catastrophic. Even small disruptions in electronic data systems can require extensive employee and consultant hours to evaluate and repair.

The Board and District officials should control and monitor both user access and physical access to IT systems to reduce the risk of misuse and/or alteration of data and a potential financial loss to the District. The Board should also develop formal policies relating to computer data backup and a formal disaster plan to provide guidance on the prevention of the loss of computer information as well as the recovery of data in the event of disaster. We found that internal controls over the District's fiscal management system and network were inadequate: computer equipment was not protected from unauthorized access; audit logs were not in place; backups of data were not stored in a secure offsite location; and the District did not have a formal IT disaster plan. Because the Board and District management did not develop policies and procedures to address these issues, the District's IT systems and electronic data have been subject to an increased risk of loss or misuse.

### Computer System Access

Effective access controls should provide reasonable assurance that computer resources are protected from unauthorized modifications. To control electronic access, a computer system or application needs a process in place to identify and differentiate among users. User accounts identify users and establish relationships between a user and a network, computer, or application. These accounts are created by the system administrator and contain information about the users, such as passwords and access rights to files, applications, directories and other computer resources. Access controls include establishing adequate passwords, limiting administrator accounts, and restricting users to only the applications that are necessary for their day-to-day operations.

Passwords—Passwords are used to authenticate a user when attempting access to a District's computer system or application. The more complex a password, the better the chances are that unauthorized users will be prevented from obtaining access to the system. As passwords

can be guessed, copied, or overheard, passwords should be held to complexity requirements, password changes should be enforced on a periodic basis, and access rights revoked upon a set number of failed sign-on attempts. Using these techniques significantly increases the District's protection in preventing unauthorized users from accessing sensitive information.

The District's system administrator provides both students and employees with a password when they are first given access to the network. These passwords are basic and are not held to any complexity requirements. Additionally, the District's Acceptable Use policy states that passwords must be changed periodically. However, once granted access to the network, students and employees are not required to change their passwords periodically. Furthermore, access rights are not revoked upon a set number of failed logon attempts.

We also noted that the District's computerized fiscal management system does not require the use of complex passwords to access the system's applications. For example, we found that a two character password was sufficient to gain access. Additionally, once users gain access to the application, enforced password changes are not consistently applied. We found only two of five users of the fiscal management system are required to change passwords periodically. Lastly, access rights in the fiscal management system are not revoked for any of the users upon a set number of failed logon attempts. As a result, there is an increased opportunity for an unauthorized user to gain access to the computer network system and disrupt the computer system or compromise computer data.

User Rights Controls — To ensure proper segregation of duties and internal controls, the financial management system should only allow users' access to the computer functions necessary to fulfill their job responsibilities. Having user rights controls in place prevents users from being involved in multiple aspects of financial transactions. Generally, a system administrator is designated as the person who has oversight and control of the system, and the ability to add new users as well as change users' passwords and rights. With this ability, administrators are able to control and use all aspects of the software. A good system of controls requires that this position is separate from the Business Office function.

The fiscal management software system used by the District to process financial transactions contains user right controls within each application. The four categories allowed are "Add," "Update," "Delete," and "Print." The ability to restrict the user right levels of different users helps ensure proper segregation of duties in the

financial software applications. However, the Business Manager, payables clerk, payroll clerk and the System Administrator<sup>4</sup> profiles have full rights to the primary financial application, even though such rights are not necessary for them to be able to fulfill their day-to-day responsibilities. For example, the Business Manager has access that enables him to create cash receipts, new vendors, and make budget transfers, and has access to employee deductions; however, these functions are not needed for him to fulfill his day-to-day job responsibilities. Furthermore, the payroll clerk has access that enables her to create purchase orders and make journal entries, although these functions are not needed for her to fulfill her day-to-day job responsibilities.

Additionally, we found that the Business Manager, payroll clerk and the System Administrator have administrative rights to the District's financial software applications, which allows them the ability to add new users as well as change users' passwords and rights. With this ability, these individuals are able to control and use all aspects of the financial software applications, which creates the opportunity for the manipulation and concealment of transactions.

Based on the weaknesses noted over the District's fiscal management software, we performed a variety of tests of payroll payments, maintenance of leave accruals, and accounts payable payments, to verify that transactions during the audit period were appropriate. Although our testing did not reveal any material exceptions, the identified weaknesses increase the risk that improper transactions could occur without detection.

## **Audit Logs**

A computerized fiscal management system should provide a means of determining, on a constant basis, who is accessing the system and what transactions are being processed. Audit logs<sup>5</sup> maintain a record of activity by system or application process. The audit log should provide information such as the identity of each person who has accessed the system, the time and date of the access, what activity occurred, and the time and date of sign off. Ideally, management or management's designee would review this audit log, in order to monitor the activity within the fiscal management software. This tool provides a mechanism for individual accountability, reconstructing events and monitoring.

Although the District's fiscal management software can generate such reports, there is no indication that anyone is generating or reviewing any audit log reports. This is a significant weakness that could allow

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<sup>4</sup> Employees of the Regional Information Center use the System Administrator account to provide support for the fiscal management system.

<sup>5</sup> Also known as audit trails

## Physical Access

unauthorized activities to occur and go undetected and unresolved. Maintaining adequate security over District IT systems helps to ensure that they are protected from loss and used effectively for their intended purpose. District officials can establish security over IT systems and equipment by controlling access to servers and components and by physically securing network components. However, we found that the fiscal management system server and four of six wiring racks were not physically secured. Unauthorized individuals could gain access to these systems in the absence of staff in the rooms in which they are located. This could result in services being disrupted, costly equipment damaged, destroyed or stolen, and personal information being compromised.

## Data Backup

Data should be backed up (i.e., copy made) on a routine basis and the backup copy stored at an environmentally and physically secure off-site location. We found the Board and District officials have not established policies or procedures for the backup of District information including the financial data. Currently, non-financial data residing on a network server in the school is backed up on a daily basis to a server located within the same building. As the system administrator for the District is on-site one day per week the back up tape is changed only weekly. District financial data is backed up to a separate server on a daily basis; however, the server resides within the Business Office along with the server housing the original data. The system administrator also indicated that backups have not been periodically tested to verify the capability of restoring the District's system. If the system were to become compromised and a backup was not available to restore it to normal operations, the District risks losing most, if not all, of its computer-processed data.

## Disaster Recovery

The District's internal control system should include a formal disaster plan to address the possible loss of computer equipment and data and establish procedures for recovery in the event of such a loss. The plan should detail the precautions to be taken to minimize the effects of any disaster and enable the District to either maintain or quickly resume its mission-critical functions. The plan should include a significant focus on disaster prevention. However, the Board has not established a formal disaster plan and 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.

## Recommendations

4. The Board and District officials should adopt policies and procedures to strengthen internal controls relating to the use of complex passwords, enforcement of password changes on a regular basis, and the revocation of access rights after a set number of failed sign-on attempts.

5. District officials should evaluate employee job descriptions and assign computer system user rights to match the respective job functions.
6. An officer or employee independent of Business Office operations should be responsible for assigning user rights to the fiscal management system.
7. An officer or employee independent of Business Office operations should be responsible for reviewing audit logs generated by the fiscal management system.
8. The District should store backups at an environmentally and physically secure off-site location. In addition, this data should be periodically tested to verify it is capable of restoring the District's system.
9. District officials should adopt policies and procedures to strengthen internal controls relating to physically securing IT equipment.
10. The District should adopt a disaster recovery plan that provides guidelines to help minimize the loss of computer data and guidance on how to implement data recovery procedures.

## Employees' Retirement System

One of the benefits offered to the District's non-instructional employees is the ability to join the Employees' Retirement System (ERS). As a participating employer in the ERS, it is imperative that District management establish criteria by which a standard workday is measured for reporting purposes; develop a formal ERS benefit notification process; and ensure employees are properly classified and are eligible for membership enrollment.

The District has approximately 40 employees enrolled as ERS members. During our review we identified several weaknesses in the District's administration of ERS processing and reporting. The Board and District management had not formally established the number of hours which constitutes a standard workday and therefore did not differentiate between full-time and part-time employment when reporting service time to ERS. In addition, the District did not have written forms on file indicating that certain employees whose membership is optional had been notified of their right to membership in the ERS. Additionally, we found the District did not have a process in place to determine whether a professional service provider should or should not be classified as an employee and to ensure that only individuals eligible for enrollment into ERS were enrolled.

Retirement Reporting — Each member's retirement benefits are integrally related to salary and service history. Consequently, each member should be reported with accurate information for earnings and days worked calculated in accordance with retirement system guidelines. The number of days worked should be based on the number of hours worked on payrolls paid during the monthly reporting period and the number of hours set by the Board as a standard workday. The standard workday can vary by position and/or individual but cannot be less than six hours per day and no more than eight hours per day. Part time employees are those who work less than the standard workday and their service should be reported as a pro-rated proportion of the standard workday for that position.

We reviewed the District's monthly ERS reports for both December 2007 and January 2008 and found the reports included two employees who were part-time bus drivers and were reported as having worked 20 days each month which is equivalent to full-time employment. Per the employees' contract, their established work day was set at four hours, less than the minimum ERS standard of a six-hour workday for full-time status and full service credit. As a result, employees who worked part-time were improperly reported as full-time employees.

Optional Member Notification — In general, employees of a participating employer in the ERS who serve in a permanent, full-time position must become members of the system while temporary, seasonal or part-time employees have the option to join. Retirement and Social Security Law requires employers hiring people whose retirement system membership is optional to notify each new employee in writing of the right to membership in the Employees' Retirement System. The law also requires that each employee acknowledge having been given such notice by signing a copy of the acknowledgement which the employer then keeps on file. It is incumbent upon the employer to provide and maintain the notification documents.

Through discussion with District officials, we found they had not notified optional members in writing of their right to membership and did not maintain employee acknowledgement documentation for optional members who chose not to join the retirement system. Without formally documenting that optional employees were notified of their right to membership in the ERS, the District runs the risk of not being in compliance with the Retirement and Social Security Law and of incurring possible retroactive membership claim costs.

Employee Classification — School districts obtain professional services from both employees and independent contractors. It is important to distinguish between an employee and an independent contractor as employees are eligible for benefits such as insurance and retirement membership and contractors are not eligible.

We met with District officials and reviewed the District's payroll records for the period of January 2008. We noted the District had not formally designated an individual or department to be responsible for determining whether an individual who provides professional type services to the District should be classified as an employee or an independent contractor. The District typically allowed professional service providers<sup>6</sup> the option to be paid through payroll or by voucher through the claims process. As a result, we found three service providers currently being paid through the District's payroll system who, as independent contractors, should have been paid by voucher. We reviewed the Monthly Employee Retirement System Report for January 2008 to determine whether any of the three service providers had been incorrectly enrolled or reported as ERS members and confirmed they had not been enrolled or reported as members. The failure to properly classify service providers as independent contractors could result in the receipt of fringe benefits to which they are not entitled.

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<sup>6</sup> Generally, the professionals provided hourly or per diem therapy services.

## **Recommendations**

11. The Board should formally set a standard workday consisting of six to eight hours of work to ensure that days worked for both full-time and part-time members are reported accurately.
12. District officials should ensure that all employees who have the option to join the retirement system are notified in writing of their right to membership and that employees acknowledge, in writing, the receipt of such notification.
13. The District should have a system in place and document determinations of whether a professional service provider is an employee or an independent contractor in order to properly determine eligibility for retirement and other fringe benefits.

## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

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

**BOARD OF EDUCATION**

THOMAS LANGEY, *President*  
PETER GILBO, *Vice-President*  
TIMOTHY BREEYEAR  
TERRIE DECKER  
CHARLES FRENCH  
ERICA KAZLO  
JODY OLCOTT  
ROSE RICE  
JAMES STAHL



**ADMINISTRATION**

WILLIAM J. LARROW, *Superintendent*  
VALERIE STAHL, *Elementary Principal*  
KATHY CARR, *Secondary Principal*  
THOMAS ANDERSON, *Dean of Students*  
CARRIE LANGEY, *Director of Special Services*  
JEFFREY SAUNDERS, *Business Manager*  
VALERIE MILDON, *District Treasurer*  
ROBERT HYATT, *Superintendent of Buildings,  
Grounds and Transportation*

# Moriah Central School District

39 VIKING LANE PORT HENRY, NEW YORK 12974 (518) 546-3301 FAX: 546-7895

September 15, 2008

Office of the State Comptroller  
Chief Examiner  
One Broad Street Plaza  
Glens Falls, NY 12801

Dear Sir:

Enclosed is our response to the preliminary draft findings from our audit entitled financial condition and internal controls over selected financial activities.

If you have any questions regarding our response, please feel free to contact me at (518) 546-3301 extension 506.

Respectively submitted,

William J. Larrow  
Superintendent

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**ATTENDANCE IS A KEY FACTOR IN ACADEMIC SUCCESS**

### **Financial Condition**

The Board of Education has received a Revenue status report and Appropriation status report (monthly) since the audit in January. The Board of Education also receives a Treasurer's Report on a monthly basis which lists all revenues and expenditures received to date for all funds (general fund, capital fund, cafeteria fund, federal funds and the trust and agency fund). The report also lists all revenues and expenditures received for the current month.

District management is working more closely with the Board of Education to control expenses in the general fund budgetary accounts. We also used more realistic figures when determining the revenue to be received in un-classified revenue for the 2008-2009 budget. The district did receive an additional \$21,135.81 in revenue and the budget was under spent by \$181,476.87 at year-end 2008.

The cafeteria experienced another deficit for the 2007-2008 school year. While management has worked hard to put out a nutritious meal at an affordable cost to the students and staff it has been difficult to keep costs down with the rising costs of food and fuel to truck the product. The Board of Education and the Districts Management team have raised the cost of school lunch and milk, they did not replace three employees who left the cafeteria and the cafeteria manager's salary was allocated into the general fund budget.

Repayment of the revenue anticipation notes will not be an easy fix for the district especially since this debt has accumulated over time. However, the Board of Education and the district's management realize the need for a repayment plan and will initiate a 20 year payment plan to repay the borrowed revenue.

### **Information Technology**

District officials have evaluated employee job descriptions and have reassigned computer user rights that now match employee's respective job functions. An employee independent of the business office has been assigned as the school system administrator who will monitor and assign and/or reassign rights on an on-going basis.

Employees are now prompted to change their passwords on a quarterly basis both to access the school system and the accounting system. At this time we have been unable to rectify the citation of revoking user rights after a set number of failed sign-on attempts. We have contacted NERIC to address this situation and at this time they have no solution to correct this problem.

The district has hired an internal controls auditor who will be responsible for reviewing the audit logs generated by the fiscal management system.

The District installed a locked security box at environmentally and physically secure off-site location where all back-up data is stored. In addition, all IT equipment will be moved

to a secure hub room in the school to prevent damage to the system once the capital project upgrades are completed in the hub room.

District management will be meeting with a representative from NERIC on September 24, 2008 to devise a plan for Moriah to integrate onto the web. This process will ensure staff the availability to work from another site if they are unable to work from home base.

### **Employee Retirement System**

The Board of Educated formally set the standard workday at 6 hours on April 22, 2008 in order for an employee to be eligible for full ERS benefits. Anyone working less than the standard work day (6 hours) are still entitled to ERS benefits but will be pro-rated to match total hours worked.

MCS Administration met with all employees who had been reported incorrectly to the retirement system and they were informed there would be an adjustment to their account. MCS Administration and ERS have worked closely to ensure employees who were reported incorrectly are now corrected and will receive benefits for the total hours worked.

Every employee has been offered the option in writing to join the employee retirement system (ERS). In return all employees acknowledged in writing, the receipt of the notification.

The District has adopted a system to determine if a professional service provider is an employee or an independent contractor. All independent contractors now have contracts and are no longer paid through payroll. They are paid through the warrant and will receive a 1099 at year end.

## 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 internal controls over the District's financial condition, information technology, and the administration of the Employees' Retirement System for further audit testing.

With regard to the District's financial condition, we analyzed financial data from the annual financial reports (ST-3) for the 2001-02 through 2006-07 fiscal years to determine trends in the District's financial activity. We reviewed financial information provided to the Board and interviewed Board members and appropriate District officials and employees. We reviewed minutes of the proceedings of the Board, relevant policies and procedures, and financial and budgetary information pertinent to our audit objective. We also compared historical budget-to-actual financial data of major revenues and expenditures and reviewed the District's use of Revenue Anticipation Notes to determine if the District had made adequate budgetary provisions for repayment.

Within the area of information technology, we reviewed all District policies related to computer use and information technology. We interviewed the District's system administrator specifically regarding network passwords, physical access to the system, controls within the fiscal management software, back-ups of data, and disaster recovery plans. We physically inspected the location of system equipment and viewed Business Office employees' computer screens to determine the software to which each employee had access.

Internal controls over the District's administration over the Employees' Retirement System (ERS) process were determined by reviewing District policies and procedures and collective bargaining agreements to ensure the Board had established a basis for calculating a standard workday. We reviewed

current monthly retirement system reports and compared reported service time to employee payroll information for the same period. We selected and reviewed certain personnel files of employees not being reported to the ERS to determine whether employees had been properly notified of their option to join the system. We also interviewed District officials and gathered pertinent documentation related to the employee classification process for professional service providers.

Additionally, we examined the following records and reports: purchase orders, claims packages, warrants, payroll journals, payroll transaction reports, personnel files, Board minutes, collective bargaining agreements and individual employment contracts, leave accrual summaries, timesheets, cancelled checks, cash receipts, and bank reconciliations.

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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## APPENDIX D

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John C. Traylor, Assistant Comptroller

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