



Pocantico Hills Central School District

Internal Controls Over Selected Financial Operations

Report of Examination

Period Covered:

July 1, 2006 — April 30, 2008

2008M-156



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

October 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 Pocantico Hills Central School District, entitled *Internal Controls Over Selected Financial Operations*. This audit was conducted pursuant to Article V, Section 1 of the State Constitution, and the State Comptroller's authority as set forth in Article 3 of the General Municipal Law.

This audit's results and recommendations are resources for district officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller
Division of Local Government
and School Accountability*



State of New York Office of the State Comptroller

EXECUTIVE SUMMARY

The Pocantico Hills Central School District (District) is governed by the Board of Education (Board) which comprises five elected members. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools (Superintendent) is the chief executive officer of the District and is responsible, along with other administrative staff, for the day-to-day management of the District under the direction of the Board. The Board annually appoints the Assistant Superintendent for Finance and Support Services as the purchasing agent to supervise the District's purchasing function. The Board has also appointed a claims auditor to review and approve all District claims.

The Assistant Superintendent for Finance and Support Services and an IT Network Specialist (a BOCES employee) share the responsibilities for the information technology (IT) system. These individuals are responsible for the access to and the security of the District's computers, applications, email and Internet connection.

Scope and Objective

The objective of our audit was to examine the District's internal controls over purchasing, claims processing and information technology for the period July 1, 2006 to April 30, 2008. Our audit addressed the following related questions:

- Are internal controls over purchasing appropriately designed and operating effectively to adequately safeguard District assets?
- Are internal controls over claims processing appropriately designed and operating effectively to adequately safeguard District assets?
- Are internal controls over information technology appropriately designed and operating effectively to adequately safeguard District assets?

Audit Results

We found that District officials need to improve the internal control system over purchasing activities, claims processing and information technology to ensure that District assets are adequately safeguarded. We identified internal control deficiencies that expose District assets to waste and/or abuse.

District officials did not always comply with General Municipal Law and District policy requiring competitive bidding. The purchasing agent approved purchases totaling \$66,101 from three vendors that should have been but were not competitively bid. Furthermore, the purchasing agent did not monitor the purchase order procedures to ensure that District employees used the purchase order system correctly. As a result, 10 purchases totaling \$35,125 were made using confirming purchase orders, allowing staff to circumvent the purchase order system. Therefore, there is an increased risk that the District will overspend budget appropriations and that the District is not purchasing goods and services at the lowest possible cost.

The claims auditor did not report to the Board as required by Education Law and did not have a clear understanding of how to perform her responsibilities to comply with Education Law requirements and to meet the Board's expectations. As a result, she did not perform a complete audit of all District claims, did not verify the accuracy of the warrant, and did not always properly complete the certification section of the warrants. These deficiencies in the District's claims audit function limit District officials' ability to detect and correct errors in a timely manner. For example, the claims auditor did not review seven claims totaling \$228,809 paid with manually-prepared checks prior to payment.

Finally, the District does not have adequate written policies and procedures providing guidance for the protection of electronic data stored by the District. In addition, we found significant weaknesses in the District's controls relating to password security. Given the sensitivity of these issues, we have communicated our concerns to District officials in a separate, confidential memo. Finally, the District's current financial software has minimum capability for generating audit logs. As a result, the District has increased risks related to its IT system and is vulnerable to the possibility of errors and/or irregularities occurring and not being detected in a timely manner.

Comments of District Officials

The results of our audit and recommendations have been discussed with District officials and their comments, which appear in Appendix A, have been considered in preparing this report. District officials generally agreed with our recommendations and indicated they have taken, or planned to take, corrective action

Introduction

Background

The Pocantico Hills Central School District (District) is located in the Towns of Mount Pleasant and Greenburgh, Westchester County. The District is governed by the Board of Education (Board) which comprises five elected members. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools (Superintendent) is the chief executive officer of the District and is responsible, along with other administrative staff, for the day-to-day management of the District under the direction of the Board.

There is one school in operation within the District that houses Pre-K through Grade 8, with approximately 325 students and 100 employees. The District's expenditures for the 2006-07 fiscal year were \$21.3 million for the general fund, \$231,000 for the school food service fund, and \$393,000 for the special aid fund, funded primarily with local taxes, and State and Federal aid.

The Board annually appoints the Assistant Superintendent for Finance and Support Services as the purchasing agent to supervise the purchasing function. The Board has adopted a purchasing policy that governs District purchasing and related activities. The purchasing agent is responsible for developing and administering the District's purchasing program, ensuring purchases are made in accordance with pertinent statutes and District policy, and making sure that the District has sufficient funds to support its purchases. The Board has also appointed a claims auditor to review and approve all District claims and to ensure that all claims for payments of goods and services are appropriate, correct and adequately supported.

The information technology (IT) functions support the District's day-to-day computer operations. The Assistant Superintendent for Finance and Support Services and an IT Network Specialist (a BOCES employee) share the responsibilities for the IT system, providing employees and students with access to computer hardware, programs, email and the Internet. The District's network includes approximately 265 individual computers.

Objective

The objective of our audit was to examine the District's internal controls over purchasing, claims processing and information technology. Our audit addressed the following related questions:

- Are internal controls over purchasing appropriately designed and operating effectively to adequately safeguard District assets?

- Are internal controls over claims processing appropriately designed and operating effectively to adequately safeguard District assets?
- Are internal controls over information technology appropriately designed and operating effectively to adequately safeguard District assets?

Scope and Methodology

We examined the District’s internal controls over purchasing, claims processing and information technology for the period July 1, 2006 to April 30, 2008. Our audit disclosed areas in need of improvement concerning information technology controls. Because of the sensitivity of this information, certain specific vulnerabilities are not discussed in this report but have been communicated to District officials so they could take corrective action.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix B of this report.

Comments of District Officials and Corrective Action

The results of our audit and recommendations have been discussed with District officials and their comments, which appear in Appendix A, have been considered in preparing this report. District officials generally agreed with our recommendations and indicated they have taken, or planned to take, corrective action.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of the GML, Section 2116-a (3)(c) of the Education Law and Section 170.12 of the Regulations of the Commissioner of Education, a written corrective action plan (CAP) that addresses the findings and recommendations in this report must be prepared and forwarded to our office within 90 days. To the extent practicable, implementation of the CAP must begin by the end of the next fiscal year. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. The Board should make the CAP available for public review in the District Clerk’s office.

Purchasing

An effective procurement process helps the District obtain goods and services of the right quality, in the right quantity, from the right source, at the right price, with sufficient appropriations available, and in compliance with all applicable legal requirements to ensure that taxpayers' monies are well spent. District officials are responsible for designing internal controls that help safeguard the District's assets and ensure the prudent and economical use of its monies when procuring goods and services. The Board has appointed a purchasing agent to be responsible for developing and administering the purchasing function, including approving purchase orders.

We found that District officials need to improve internal controls over purchasing activities. District officials failed to competitively bid five of 10 purchases that we reviewed totaling \$66,101. In addition, we found that 25 of 60 purchases reviewed were made using confirming purchase orders, allowing staff to circumvent the purchase order system. Making purchases without complying with General Municipal Law (GML) competitive bidding requirements and pre-approval increases the risk that the District will pay more than necessary which could lead to higher costs and budgetary shortfalls for the District.

Competitive Bidding

GML and the District's purchasing policy require that all purchase contracts for goods and services involving an annual expenditure of over \$10,000 and all public work contracts involving expenditures over \$20,000 be awarded on the basis of public advertising and competitive bidding. GML further states that the District cannot avoid competitive bidding by making a series of separate purchases of the same item, with each purchase being less than the \$10,000 or \$20,000 threshold but cumulatively exceeding the threshold.

The District did not adhere to GML or its own purchasing policies when it made purchases in excess of the bidding thresholds without the benefit of competitive bidding. We selected and tested payments totaling \$417,665 that were made to seven vendors. District officials did not competitively bid, as required, purchases totaling \$66,101 from three of the seven vendors because they did not combine purchases of like items. In aggregate, the goods from these three vendors exceeded the bidding thresholds, but they were purchased and paid for in amounts that were below the bidding thresholds. For example, purchases of food commodities and supplies totaled \$13,640 in 2006-07 and \$12,050 in 2007-08 from one vendor and totaled \$13,315 in 2006-07 and \$11,450 in 2007-08 from a second

vendor. In addition, purchases of office supplies from a third vendor totaled \$15,650 during fiscal year 2007-08.

Awarding contracts without the benefit of a public bid process or competitive quotes for goods that exceed bidding thresholds violates GML and the District's own policies and procedures. As a result of the purchasing agent not enforcing the Board's approved policy and District officials cannot be sure they obtained these goods and services at the lowest price.

Confirming Purchase Orders

A properly functioning purchase order system requires pre-approval via purchase requisitions. Such a system is effective in controlling expenditures because it confirms that the purchasing agent is aware of and authorizes the procurement of goods and services and adequate funds are available for the purchase. Approved purchase requisitions are used to generate purchase orders, which are sent to the vendor. Confirming purchase orders occur when purchase orders are prepared after the actual purchase is made. The use of confirming purchase orders should be strictly limited to emergency purchases, because such purchases circumvent the approval and price verification features of the normal purchasing process.

Although the District established a purchase order system, staff often circumvented the system by using confirming purchase orders. Instead of obtaining pre-approval for goods and services via purchase requisitions through the purchasing agent, District staff placed orders for goods and services on their own. We reviewed 35 purchases totaling \$175,260 and found 10 instances totaling \$35,125 where the accounts payable clerk prepared a purchase order after the purchase or back dated the purchase order. We reviewed an additional 25 purchase orders for the current fiscal year and found that 15 were back dated. The District's accounting software automatically numbers the purchase orders sequentially, but allows the accounts payable clerk to manually enter any date.

Although there are situations where the use of confirming purchase orders is appropriate, for example, emergencies, none of the transactions we tested were emergency purchases. We found that the purchasing agent did not monitor the purchase order procedures to ensure that District employees used the purchase order system correctly. The routine use of confirming purchase orders circumvents internal controls and weakens the procurement process. It also increases the risk of overspending budget appropriations and District officials do not have adequate assurance that goods and services of high quality are procured at the lowest price.

Recommendations

1. The purchasing agent should ensure that all purchases of like items are aggregated and quotes are solicited or bids obtained in order to obtain the economic benefit of volume purchasing and to comply with GML and the District's procurement policy.
2. District officials should ensure that the use of confirming purchase orders are limited to emergency situations, and require individuals who make confirming purchase orders to indicate the reason why the purchases were considered an emergency.
3. District officials should communicate purchasing procedures governing the procurement of goods and services to all relevant staff.
4. District officials should enforce the established purchase order policy to ensure that employees use purchase orders prior to purchasing goods and services.

Claims Processing

An effective claims processing system must be in place to ensure that all vendor claims for payment are effectively audited and approved before payment is made. An audit of claims must involve a detailed and thorough review of all related documents for accuracy, completeness and authorizations. An effective claims audit process helps to ensure that the Board is fulfilling its oversight responsibilities and that the District only pays for those goods and services that were received and are supported by proper approvals and documentation.

The Board is responsible for auditing all claims or appointing a claims auditor to perform this function. If an audit of claims is not performed by the Board, the person designated by the Board as claims auditor must report directly to the Board to maintain adequate independence. If the Board chooses to appoint a claims auditor, it must also provide the claims auditor with a job description and other guidance to communicate the claims auditor's responsibilities and the Board's specific expectations of the claims audit function. For example, it is important for the claims audit policy to include a description of what constitutes a proper audit of claims and how the claims auditor must indicate that each claim has been audited. In addition, after the claims auditor has audited claims against the District, it is required that the District Clerk retain on file the documentation that shows the claims have been audited.

The claims auditor did not have a clear understanding of how to perform her responsibilities to comply with Education Law requirements and to meet the Board's expectations. As a result, she did not perform a complete audit of all District claims, did not verify the accuracy of the warrant, and did not always properly complete the certification section of the warrants. These deficiencies in the District's claims audit function limit District officials' ability to detect and correct errors in a timely manner. The claims auditor did not report directly to the Board, and did not conduct a thorough review of claims before approving them. In addition, the Board failed to monitor the claims auditor's work, increasing the risk that District monies could be spent for inappropriate purposes, and that errors and irregularities could occur and not be detected and corrected in a timely manner.

Claims Audit Function

The Board has appointed a claims auditor who reviews claims weekly.¹ The claims auditor is required to report the results of her audit of claims directly to the Board and not to any other District staff member or management. Furthermore, the claims auditor is responsible for documenting the review and approval of each claim and must sign off on the warrant to indicate that all claims have been audited and approved. To provide additional oversight, the Board must receive and review, in a timely manner, the warrants listing the claims approved for payment by the claims auditor.

We found that internal controls over the claims audit function were not appropriately designed and operating effectively. The Board failed to provide the claims auditor with a written job description or duty statement to ensure that the claims auditor clearly understands how to perform her responsibilities to comply with Education Law requirements and to meet the Board's expectations. The claims auditor does not report directly to the Board and does not consult with the Board regarding concerns or questions about claims, nor does she keep a record of the exceptions. We also found that the Board did not require the claims auditor to periodically report to them.

In addition, we found that the claims auditor's review is not thorough. The claims auditor informed us that she did not compare amounts paid to contract terms or bid amounts, when appropriate, to ensure that the District is paying the correct contract or bid amounts. She also said that she did not compare purchases made on open purchase orders to the liquidation or draw down amounts of the purchase order to verify that the purchases do not exceed the available appropriation.² Finally, she did not keep a log as to which claims she had reviewed. Therefore, she was not able to compare the warrant to the claims that she audited.

Finally, we found that the claims processing records were not accurate, complete or prepared in a timely manner. For example, our review of 21 warrants totaling about \$44 million identified a claim for \$133,667 paid with a manually-prepared check that was reviewed by the claims auditor but did not appear on the warrant. Conversely, disbursement checks prepared to cover the payroll which were not presented to the claims auditor were included in the certified warrant. In addition, the warrants for December 2006 through March 2007 were not printed until April 2007 and the warrants for the period November 2007 through March 2008 were not printed until April 29, 2008 and were not dated. We also found five duplicate warrants with

¹ The accounts payable clerk is responsible for printing the warrant on a monthly basis.

² As of April 2008, the accounts payable clerk attaches a liquidation of the purchase order to the claim.

amounts different from the originals. The claims auditor's failure to report directly to the Board or to provide certified copies of warrants to the Board in a timely manner increases the risk that errors and/or irregularities could occur and remain undetected and uncorrected timely.

Claims Paid With Manually-Prepared Checks

The claims auditor is responsible for auditing all claims against the District before they are authorized for payment to verify that claims are valid, legal, and represent necessary obligations incurred by authorized officials; do not exceed the available appropriation; are sufficiently itemized, in proper form, and mathematically correct; do not include charges previously paid; are in agreement with the purchase order or contract on which they are based; and include evidence of departmental approval and the District's receipt of goods and/or services.

The majority of the District's accounts payable checks are computer generated; however, the District uses manually-prepared checks for the capital, Federal, and extra-classroom activities funds. We found that claims paid using manually-prepared checks were not subject to the same controls as claims paid using computer-generated checks. We reviewed 11 claims totaling \$370,647 for manually-prepared checks. The claims auditor did not review seven of the 11 claims, totaling \$228,809. These claims included payments made for professional and contractual services. In addition, three of the claims from above, totaling \$199,541, were not included in the respective warrants. These deficiencies occurred because the Board did not provide procedures requiring claims paid by manually-prepared checks to be audited and approved prior to payment. As a result of this internal control weakness, the Board does not have reasonable assurance that the payments are valid and appropriate District expenses.

Recommendations

5. The Board should require the claims auditor to report directly to the Board regarding the results of the audit of claims.
6. The Board should provide the claims auditor a written job description or duty statement to ensure that the claims auditor clearly understands how to perform his or her responsibilities to comply with Education Law requirements and to meet the Board's expectations.
7. The Board should ensure that the claims auditor conducts a thorough and deliberate audit of claims in accordance with laws, regulations and District policies. For example, warrants should be printed and certified in a timely manner. The certified copies should be forwarded to the Board.

8. The Board should formally evaluate the design of the system of internal controls over manually-prepared checks and ensure that all claims are properly audited and approved before they are paid.

Information Technology

The information technology (IT) system and the data it holds are valuable District resources. The District relies on the IT system to provide computer education and Internet access, communicate by email, store student data, maintain financial records, and report to State and Federal agencies. District officials are responsible for designing and implementing a comprehensive system of internal controls over its IT system. The effective design of internal IT controls addresses the risk of critical systems and data being compromised or lost, and measures the impact of that loss on critical District functions. If the system fails, resulting problems could range from inconvenient to catastrophic. Even small disruptions can require extensive effort to evaluate and repair. Access to computer systems must be controlled and monitored to reduce the risk of misuse or alteration of data, which could result in financial loss.

District officials did not sufficiently address the design, implementation, and operation of District IT controls. The District does not have any IT policies other than an acceptable use policy for its students. In addition, we found significant weaknesses in the District's controls relating to password security. Given the sensitivity of these issues, we have communicated our concerns to District officials in a separate, confidential memo. Finally, the District's current financial software has minimum capability for generating audit logs. Due to these weaknesses, the District computer systems and electronic data may be exposed to an increased risk of loss or misuse.

Policies and Procedures

District officials should establish policies and procedures that provide clear guidance on all aspects of the District's IT system, including IT security and acceptable use. A security policy must include procedures to protect the IT system from internal, external, man-made and environmental risks. Procedures must address data protection; virus prevention; user account, password, and remote access guidelines; and monitoring system access. An acceptable use policy addresses all District IT users, including outside contractors. This type of policy must include procedures for acceptable computer, Internet, and email use, and hold users accountable for the proper use and protection of District resources, and provisions for enforcement in the event of violations.

We found that the District has not developed policies for security or acceptable use of the IT system. The District assigned responsibility for critical IT functions to the Assistant Superintendent for Finance

and Support Services. The Assistant Superintendent for Finance and Support Services and the IT Network Specialist (BOCES employee) share the responsibilities of system administration of the financial system and the network, respectively. However, District officials have not clearly defined their duties and responsibilities, along with comprehensive IT policies and procedures. As a result, District systems and data are more susceptible to misuse.

Access Controls

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

Passwords can be used effectively to mitigate the risk of unauthorized access to the District's computer resources. The more complex a password, the better the chances are that intruders and unauthorized users will be prevented from obtaining access to the system. Strong passwords meet a level of complexity that makes them difficult to guess. For example, strong passwords generally are not a word in any language, do not contain personal information, and contain a combination of uppercase and lowercase characters, symbols, and numbers. Passwords should be changed every 30 to 90 days to protect confidentiality. Doing so significantly increases the District's protection against unauthorized access to District information. Access to the system should be denied after a specific number of failed log-in attempts to further prevent unauthorized users from guessing passwords. A password must also be required to access the system after a period of inactivity to discourage unauthorized access from unattended workstations.

The IT Network Specialist creates each user's initial account and sets the password for network use and the Assistant Superintendent for Finance and Support Services is responsible for setting up user accounts and passwords for the financial software. After the first successful login, users are required to change their passwords. We identified significant weaknesses in the District's control relating to password security. Due to the sensitive nature of this issue, we have communicated these concerns in a separate, confidential memo. Additionally, the District does not require its financial software to

time out after a certain period of inactivity. This allows users to stay logged onto their computers throughout the day, even when they are away from their computers for extended periods, which increases the risk that unauthorized users will be able to access the computer system. These weaknesses increase the risk of unauthorized users gaining access to the District's IT system, which could result in unauthorized changes to or destruction of District data.

Audit Logs

A well-designed IT system must be capable of generating an audit log, which provides a means of determining, on a constant basis, who is accessing the system and what transactions are being processed. Audit logs maintain a record of activity that includes the identity of each person who has accessed the system, the time and date of the access, and what activity occurred. Ideally, a manager should review this log to monitor the activity of users who access the District's applications and data.

The District's current financial software has minimum capability for generating audit logs. Furthermore the Assistant Superintendent for Finance and Support Services stated the audit logs do not include information that would identify unauthorized users or unauthorized transactions. For example, the financial software allows for back dating of purchase orders and changes to payroll information without providing detailed audit log information, such as date stamping the transaction or change and identifying the user who initiated the transaction or change. As a result, there is an increased risk that unauthorized activity could go undetected.

Recommendations

9. District officials should develop comprehensive IT policies and procedures relating to all key aspects relevant to the District's IT operations.
10. District officials should clearly define the duties and responsibilities of the Assistant Superintendent for Finance and Support Services and the IT Network Specialist charged with the IT functions.
11. District officials should improve controls over password security.
12. If it is not possible to produce computer-generated audit logs, the District should implement compensating controls that allow management to determine who is accessing the system and what transactions are being processed.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

POCANTICO HILLS CENTRAL SCHOOL

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E.D. Smith, Ph.D.
SUPERINTENDENT

Mr. Jay Scotto-Friedman
ASSISTANT SUPERINTENDENT FOR
FINANCE AND SUPPORT SERVICES

Mr. Stanley L. Steele
PRINCIPAL

New York State Office of the State Comptroller
33 Airport Center Drive
Suite 103, New Windsor NY 12553

October 21, 2008

Dear [REDACTED]:

On behalf of the Pocantico Hills Central School District Board of Education please accept this response to the audit recently concluded by your office.

The Board of Education understands that the goal of the audit recently conducted by your office is to assist the District in effectively and efficiently managing its operations, and to provide accountability for tax dollars spent to support the District's operations. The Board of Education appreciates your efforts to ensure that its operations, and ultimately its constituents benefit from the recommendations provided by your office.

The Board of Education agrees with the findings and recommendations included within the report. Further it is the Board's opinion that the findings of the Comptroller will assist the Districts with its on-going efforts to improve the District's financial operations.

Over the last two years the Board of Education, and the Pocantico Hills Community have supported improvements to the business operations of the school district. Needed changes have been discussed with, and supported by the School Board over the last three school budget cycles, 2006-2007, 2007-2008, and 2008-2009. The community supported an additional business office position in 2006-2007, which was filled in September 2007. The funding for improved financial accounting software was proposed during the two previous school budgets (2007-2008 and 2008-2009), and approved for 2008-2009 by the Board of Education and the taxpayers of Pocantico Hills. The limitations noted by the audit findings with the current financial software, and to some extent, the deficiencies in the claims auditing process, will be addressed with the implementation of the financial software recently approved by the Board and the Pocantico Hills taxpayers.

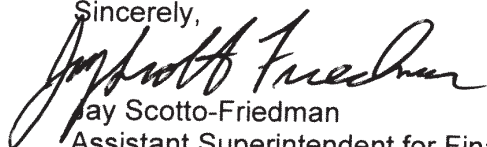
The Assistant Superintendent has provided professional development to its staff over the last three years resulting in significantly fewer confirming purchase orders, and better compliance with the District's purchasing policy. The Assistant Superintendent has reported to the Board, and the Internal Audit Committee on a plan for improving the financial operations, and the steps already taken, and to be taken to enforce compliance with the District's purchasing policies. Since the conclusion of the audit the District has implemented stronger measures to ensure better compliance with its purchasing policy, and will continue to address this issue until resolved.

The Board of Education has addressed the issues with the claims auditing process by replacing the claims auditor effective July 1, 2008.

Due to the District's small size and limited personnel the District has followed a distributed model for the approval, implementation, use and access of district technology. In January 2008 the District's technology committee, which is chaired by the Assistant Superintendent, began its work on the development of a comprehensive acceptable use policy which when complete, will address many of the issues identified in the audit report.

On behalf of the Pocantico Hills Board of Education please accept the District's appreciation for the efforts of the Comptroller's office in assisting Pocantico Hills to more effectively and efficiently manage its operations.

Sincerely,



Jay Scotto-Friedman
Assistant Superintendent for Finance and Support Services

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, information technology, and payroll and personal services.

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 information technology (IT), purchasing and claims processing for further audit testing.

During this audit, we examined the internal controls related to IT, claims processing and purchasing activities and practices of the District for the period July 1, 2006 through April 30, 2008. To accomplish the objectives of this audit and obtain valid evidence, our procedures included the following steps:

- We interviewed appropriate District officials and employees regarding purchasing policies and procedures. These discussions allowed us to analyze the District's internal control structure governing the processes for purchasing goods and services.
- We reviewed advertisements, bids, quotes, and documentation relating to requests for proposals and quotes, contracts, and Board minutes to determine if the lowest cost responsible vendor was selected, if the District documented its results for requesting and obtaining quotes and proposals, and if the bidding process was performed in a fair manner.
- We reviewed cash disbursement records, Board minutes, claims warrants, budget status reports, and purchasing records and contracts. We also selected and tested transactions and claims, and examined pertinent documents, to determine whether purchases had been properly approved and complied with District policies, if relevant documentation supported the purchase, and how the Board audited claims and monitored the budget. To determine if the claims auditor was performing a proper audit of claims, we interviewed the claims auditor and reviewed 21 warrants for the audit period.

- We reviewed District policies related to computer use and IT. We interviewed the Assistant Superintendent for Finance and Support Services and IT Network Specialist specifically regarding user access, network passwords, controls within the database and fiscal management software, back-ups of data, and disaster recovery plans.
- We reviewed server capabilities regarding user access. We also interviewed and tested user access with various District employees. We physically tested user account access to the network and its servers, password controls, lockout controls, inspected the location of system equipment, and viewed Business Office employees' computer screens to observe their related access controls to the financial program.

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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DIVISION OF LOCAL GOVERNMENT
AND SCHOOL ACCOUNTABILITY

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John C. Traylor, Assistant Comptroller

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