



Port Washington Union Free School District

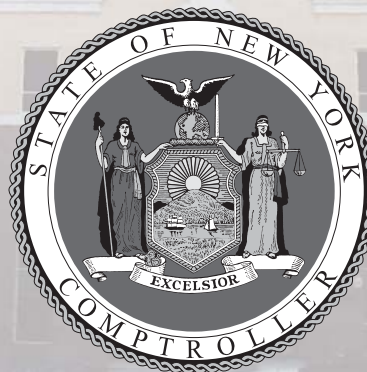
Internal Controls Over Selected Financial Operations

Report of Examination

Period Covered:

July 1, 2006 — August 31, 2007

2008M-161



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

November 2008

Dear School District Officials:

A top priority of the Office of the State Comptroller is to help school district officials manage their districts efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support district operations. The Comptroller oversees the fiscal affairs of districts statewide, as well as districts' compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving district operations and Board of Education governance. Audits also can identify strategies to reduce district costs and to strengthen controls intended to safeguard district assets.

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

Scope and Objective

The objective of our audit was to examine the District's internal controls over selected financial operations for the period July 1, 2006 to August 31, 2007. Our audit addressed the following related questions:

- Has the Board established a process for employees to disclose interest in contracts with the District?
- Did District officials effectively develop policies and procedures for fuel use and inventory?
- Did District officials effectively develop policies and procedures for information technology to ensure that electronic data is appropriately safeguarded?

Audit Results

We found weaknesses in several of the District's financial operations, requiring greater Board oversight and attention to these operations. The Board has not established appropriate policies to guide employees' actions, and at other times, District officials did not implement the policies. For example, three District employees, who were paid a combined total of \$101,215 as vendors, did not disclose their interest in contracts with the District, as required by Law. The lack of procedures to monitor and enforce the statutory disclosure requirement may lead to a lack of transparency in transactions in which employees have an interest in their private capacities.

The District has not adopted written policies or established proper controls over vehicle fuel use. Our test of records of fuel deliveries, usage, and fuel inventory stick readings for the period December 18, 2006 to March 21, 2007 disclosed that 981 gallons of gas were unaccounted for. Fuel usage records were inaccurate and incomplete. As a result, there is a risk that District fuel resources are not properly dispensed or protected from loss, misuse, or abuse.

Finally, the District did not establish policies and procedures to effectively safeguard its computerized financial system data. We found controls over access privileges are not completely effective. Several individuals had user rights that were not in accordance with their job functions. For example, the District Treasurer had unrestricted access privileges to the financial system, including system maintenance, which allows the Treasurer to assign and change users' access permissions, including her own. In addition, access rights for a former administrator were still active three months after he had left District employment. As a result of ineffective controls over the assignment, elimination, and limitation of a user's access to the District's financial software package, the District may be at risk that unauthorized access, manipulation, and or loss of financial data could occur and not be detected and corrected timely.

Comments of District Officials

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

Introduction

Background

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

There are five elementary schools, one middle school and one high school in operation within the District, with approximately 5,100 students and 1,100 employees. The District's budgeted expenditures for 2006-07 fiscal year were \$110 million, funded primarily with real property taxes, State aid, and grants.

Objective

The objective of our audit was to examine the District's internal controls over selected financial operations. Our audit addressed the following related questions:

- Has the Board established a process for employees to disclose interest in contracts with the District?
- Did District officials effectively develop policies and procedures for fuel use and inventory?
- Did District officials effectively develop policies and procedures for information technology (IT) to ensure that electronic data is appropriately safeguarded?

Scope and Methodology

We examined internal controls over certain District financial operations for the period July 1, 2006 to August 31, 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.

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.

Interest in Contracts

General Municipal Law (GML) limits the ability of District officers and employees to enter into contracts in which both their personal financial interests and their public powers and duties conflict. Unless a statutory exception applies, District officers or employees may not have an interest in any contract with the District of which he or she is an officer or employee, when the officer or employee, individually or as a member of a board, has the power or duty to negotiate, prepare, authorize or approve the contract or authorize or approve payment under the contract; audit bills or claims under the contract; or appoint an officer or employee who has any of the above powers or duties. A District officer or employee has an interest in a contract when he or she receives a direct or indirect monetary or material benefit as a result of a contract of the District that the officer or employee serves. District officers and employees are also deemed to have an interest in the contracts of: their spouse, minor children and dependents (except employment contracts); a firm, partnership or association of which they are a member or employee; and a corporation of which they are an officer, director or employee, or directly or indirectly own or control any stock. As a rule, interests in actual or proposed contracts on the part of a District officer or employee, or his or her spouse, even when not prohibited, must be publicly disclosed in writing to the officer or employee's immediate supervisor and to the Board. The written disclosure to the Board must be made part of and be set forth in the official record of the proceedings of the Board.

We found that three employees did not disclose their interests in contracts with the District, as required by GML. Proper disclosure helps ensure transparency in connection with District contracts in which a District officer or employee has an interest in their private capacities.

- An employee in the District's print shop also owns a printing business. During the 2006-07 fiscal year the District paid this employee's printing company \$6,795 to collate, stitch, fold and trim print jobs from the District's print shop. This individual was also responsible for requesting and receiving competitive quotes from companies competing against his own business for the District's printing services needs. This contractual relationship was not properly disclosed to the Board and the employee's immediate supervisor.
- The District employs another individual as a language lab instructor/translator who is also paid as a vendor to translate

pages into Spanish. During the 2006-07 fiscal year, the District paid this individual \$19,936 as an employee and \$86,875 as a vendor and provider of translation services. This relationship was not properly disclosed to the Board and the employee's immediate supervisor.

- The District hired the owner of a kayak rental business as an employee to provide kayak instructions while renting the kayaks from his business for \$6,545 for a District summer program. We were informed by District officials that the Town of North Hempstead grants park permits to launch kayaks only to not-for-profit organizations. Because the Town would not allow the business owner to have a park permit to launch kayaks, the District hired the business owner as an employee. The District obtained a permit from the Town and, the business owner, as a District employee was able to provide kayak instructions at the park for the summer program. This relationship was not formally disclosed to the Board.

In each of these instances, the employee is also the owner of a business that has a contractual relationship with the District, which required a proper written disclosure of interest to the Board and the immediate supervisor of the employee. The lack of procedures to monitor and enforce the statutory disclosure requirement may lead to a lack of transparency in transactions in which employees have an interest in their private capacities.

Recommendation

1. The Board should develop procedures to ensure that all District officials and employees disclose their interests in contracts with the District, as required by law.

Fuel Use and Inventory

School districts must establish a system of internal controls to provide assurance that fuel purchases are properly recorded and that subsequent usage is appropriate. It is important that District officials establish procedures that limit access to fuel stores; require the maintenance of perpetual inventory records that identify quantities purchased, delivered and dispensed; require the reconciliation of fuel usage reports to vehicle and inventory records; and require the performance of periodic inventories to reconcile inventory records to physical inventory levels.

The District has two gasoline storage tanks with pumps located outside the District's transportation garage that provide fuel for District vehicles. During the fiscal year ended June 30, 2006, the District expended \$32,734 for vehicle fuel delivered to these tanks.

We found the District does not have adequate controls in place to protect and account for its inventories of fuel. The District has not adopted written policies or established proper controls over vehicle fuel. District officials did not maintain perpetual inventory records, and controls over the disbursement of vehicle fuel were not adequate.

The District's fuel pumps are not locked during the day, and there is no other control mechanism, such as a card or key, required to operate the pumps. While the pumps are locked at night, several employees have keys to the pumps. The District uses a stick to read and measure the fuel in the tanks to determine when to order fuel; a record is kept of these stick readings. District employees are required to sign a fuel usage sheet when fueling a District vehicle which is supposed to include the date, number of gallons pumped, which tank they pump fuel from, the vehicle, the vehicle mileage, and signature. The fuel usage sheets were not reconciled to the fuel delivery records, stick readings or vehicle records to verify the accuracy of the recorded entries.

We compared the fuel usage records to fuel delivery records and the beginning and ending stick readings for the period December 18, 2006 to March 21, 2007. We found the fuel usage sheets to be inaccurate and incomplete. We calculated from stick readings and delivery records that about 4,418 gallons of fuel were dispensed. However, the usage reports showed that only 3,437 gallons were used during this period. Because records were inaccurate and incomplete, District officials could not explain or account for the difference of

981 gallons of fuel. We also found five instances where fuel usage was recorded, but the individual pumping the gas did not sign the fuel usage sheet.

As a result of lack of written policies, poor internal controls over the fuel operation, and a lack of complete fuel dispensing records, there is a higher risk that the District's fuel resources are not properly dispensed or protected from loss, misuse, or abuse. District officials must ensure that this resource is properly safeguarded and accounted for.

Recommendation

2. District officials should develop procedures that provide for limiting access to fuel pumps; maintaining accurate records of fuel purchased, delivered and dispensed; performing periodic physical inventories of fuel stores; and reconciling fuel usage reports to vehicle and inventory records.

Computer 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 should provide a process 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.

The District uses a financial accounting software package (financial software) to process and maintain financial transactions. This financial software consists of modules that segregate various financial recording and reporting processes. Access privileges within the financial software include the ability to add, update, delete, and print transactions within these modules. Having access controls in place helps prevent users from being involved in multiple aspects of financial transactions.

District officials did not effectively safeguard the computerized financial system data. We found controls over access privileges were not completely effective because several individuals had user access rights that were not in accordance with their job functions, and the access rights of a former administrator were still active three months after he had left the District employment. District officials should grant user access to the computerized financial system based on employees' job descriptions and levels of responsibilities and eliminate those rights when employees' responsibilities change or upon separation. Ineffective controls over the assignment, elimination, and limitation of a user's access to the District's financial software package could result in unauthorized access, manipulation, and loss of financial data to occur and not be detected and corrected timely.

Although District officials have recently revised access privileges to better restrict users to only those computer functions necessary to fulfill their job responsibilities, these revisions have not been completely effective. There were no policies or procedures for District employees detailing the authorization and documentation requirements for user account additions, deletions or changes. The access rights of a former District administrator were not eliminated

when he left the District. The former administrator, who left the District in June 2007, still had an active user account and complete access rights in the financial accounting software in September 2007. The District Treasurer had unrestricted access privileges to the financial system, including system maintenance, which allows the Treasurer to assign and change users' access permissions, including her own. Finally, three individuals have two usernames. One of their user accounts is restricted, allowing access based on the employee's job function. The other user account allows them to override transactions; however, only their supervisor had the password for the override accounts.

The failure to establish policies and procedures for the District's computer data systems can result in unauthorized access to sensitive information, manipulation of District records and the loss or destruction of data.

Recommendation

3. District officials should continue to review and revise user access rights to the financial software along with job descriptions to ensure that users have access only to functions within the scope of their responsibilities.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

PORT WASHINGTON Union Free School District

GEOFFREY N. GORDON, Ed.D. 516-767-5005
Superintendent

NICHOLAS A. STIRLING, Ph.D. 516-767-5040
Assistant Superintendent for Curriculum, Instruction and Assessment

KATHLEEN A. MOONEY, Ed.D. 516-767-5050
Assistant Superintendent for Human Resources and General Administration

MARY M. CALLAHAN 516-767-5010
Assistant Superintendent for Business, District Clerk

Administration Building
100 Campus Drive, Port Washington, NY 11050
FAX 516-767-5007

October 16, 2008

[REDACTED]
Office of the State Comptroller
New York State Office Building, Room 3A10
Veteran's Memorial Highway
Hauppauge, New York 11788-5533

Dear [REDACTED]:

We are in receipt, on September 16, 2008, of the Executive Summary of the New York State Office of the State Comptroller regarding the audit conducted from September through December, 2007, of the Port Washington Union Free School District. In accordance with the outline received from the State Comptroller Thomas P. DiNapoli entitled "Responding to an OSC Audit Report," and consistent with the Exit Meeting between the New York State Audit team and the Port Washington School District, please note the following:

The Port Washington School District is aware that the outline in Appendix B of the audit indicates that "the initial assessment of the State Comptroller's Office included evaluations of the following areas: financial oversight, cash receipts and disbursements, purchasing, payroll and personnel services." We are extremely pleased that the results of this extensive initial assessment, as defined by the State Comptroller's Office in Appendix B, indicated what we believe to be as positive a result as any district audit outcome in New York State of which we are aware. In that regard, we accept the three areas designated to be addressed by the audit team within the constructive framework in which they were offered.

As discussed in the Exit Conference, the Port Washington UFSD budget has been praised as efficiently managed on the public record by both the external and internal auditors. We view the suggestions of the State Audit team through the same lens of constructive suggestions and management that we adhere to in the Port Washington Union Free School District. Specifically, regarding area number 1, "has the Board established a process for employees to disclose interest in contracts with the District," the answer is yes. The Port Washington School District is enhancing that process so that through Board policy it becomes a yearly disclosure.

As the representatives of the State Comptroller's Office were informed at our meeting, we have determined for certain that two of the three individuals fully disclosed their relationship to their supervisors at the time of employment, and to the best of our knowledge, the same was true of the third individual as well. In any event, please be aware that our recommendation to the Board of Education is that a policy be adopted which will make this a yearly annual disclosure that any employee provide full disclosure of any vendor services. As all have agreed, in the case of all three individuals discussed in the audit, all were providing a cost savings to the District and taxpayers and the services were completely transparent.

Regarding area number 2, "Fuel Use and Inventory," as agreed at the meeting with the State Comptroller's audit team, the issue here is of the process that was previously in place and of ensuring tighter controls. Specifically, while this involved access to fuel pumps for District vehicles, the new procedures restrict time of service and expand checks and balances so as to meet all of the standards recommended in the audit. In that controls were previously in place, the adjustments fortunately were minor and completed in a timely way.

Regarding area of concentration number 3, "Computer Access Controls," we, again, agree with the findings of the Comptroller's audit team. We are pleased to have continued development of the controls in such a way as to be consistent with the guidelines of the State Comptroller's office. This has been an ongoing process for us, and the recommended safeguards are already in place.

In summary, as we stated at the meeting, we would like to thank the Comptroller's Office for the constructive suggestions to help us continue the efficient management of our school district.

We will continue in that regard and thank you for your constructive suggestions therein.

Best regards,



Geoffrey N. Gordon, Ed.D.
Superintendent of Schools

GNG/da

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, 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 interest in contracts, fuel usage and information technology for further audit testing.

In our examination we:

- Inquired into what internal controls and procedures were in place to identify and prevent potential conflicts of interest or interest in contracts.
- Requested and obtained representations from District officials and Board members indicating there outside employment and business interests.
- Examined electronic data to determine whether employees were paid as vendors of the District.
- Tested selected transactions to determine if procurement practices conformed to the Board's purchasing policy and/or the provisions under General Municipal Law.
- Interviewed District officials and examined Board minutes and documentation.
- Traced fuel inventory purchases and usage to detail records.
- Verified that access to fuel inventory is restricted to authorized personnel. We looked for physical safeguards and authorized signatures.

- Interviewed District personnel and evaluated internal controls and safeguards over IT.
- Evaluated access controls over the financial software package used by the District to process and maintain financial transactions.

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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