



# Prattsburgh Central School District Internal Controls Over Information Technology

Report of Examination

Period Covered:

July 1, 2006 — August 29, 2007

2007M-296



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**

March 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 Prattsburgh Central School District, entitled *Internal Controls Over Information Technology*. 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*

# Introduction

## Background

The Prattsburgh Central School District (District) is located in the Towns of Prattsburgh, Urbana, Wheeler and Pulteney in Steuben County and the Towns of Italy and Jerusalem in Yates 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, with approximately 480 students in Pre-Kindergarten to Grade 12, and 86 employees. The District's budgeted expenditures for the 2006-07 fiscal year were \$7.5 million, which were funded primarily with State aid, real property taxes, and grants.

The Business Office consists primarily of four employees: the Superintendent who acts as the District's Business Manager and has been appointed as the District's purchasing agent, the District's Treasurer who also performs other duties as the District's athletic director, an accounts payable clerk, and the District clerk who also performs payroll clerk functions. The District also contracts with the Greater Southern Tier Board of Cooperative Educational Services (BOCES) for business operations such as payroll processing and administration of the computerized financial package. The Principal also serves as the District's Assistant Superintendent, but is primarily involved with requisition approval.

During our audit period, the District used a software package to process its financial transactions. The District's computerized financial system included six modules<sup>1</sup> and 64 users had access to these modules at the time of our testing. Fifty-two of these users are employees who have access simply to request requisitions electronically. Two others have even more limited access and may only edit requisitions that have been previously requested. The remaining 10 have various levels of access that match their roles in the business processes at the District. Five of those 10 employees are BOCES employees, and the other five are District employees who have various Business Office functions.

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<sup>1</sup> The modules included in the financial management system are accounts receivable, accounts payable, general ledger, payroll, budget, and personnel.

**Objective**

The objective of our audit was to examine the District's internal controls over information technology. Our audit addressed the following related question:

- Are internal controls over information technology appropriately designed and operating effectively to adequately safeguard District assets from fraud, abuse and professional misconduct?

**Scope and Methodology**

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard District assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: financial oversight, cash receipts and disbursements, purchasing, and payroll and personal services. Based on that evaluation, we determined that controls appeared to be adequate and limited risk existed in most of the financial areas we reviewed. We did determine that risk existed in the information technology area and, therefore, we examined internal controls over information technology for the period July 1, 2006 to August 29, 2007.

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

**Comments of District Officials and Corrective Action**

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

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of the General Municipal Law, Section 2116-a (3)(c) of the Education Law and Section 170.12 of the Regulations of the Commissioner of Education, the Board must approve a corrective action plan that addresses the findings in this report, forward the plan to our office within 90 days, forward a copy of the plan to the Commissioner of Education, and make the plan available for public review in the District clerk's office. For guidance in preparing the plan of action, the Board should refer to applicable sections in the publication issued by the Office of the State Comptroller entitled *Local Government Management Guide*.

## Information Technology

The District's widespread use of information technology presents a number of internal control risks that must be addressed. These risks include unauthorized access to data, unauthorized changes to data in master files, and potential loss of data. Controls that the District can use to address these risks consist of a combination of automated controls and manual controls. An effective system of internal controls to safeguard computerized data includes policies and procedures adopted by the Board that are designed to minimize the loss or corruption of essential data. It is important that policies and procedures limit user access to only authorized persons, who need this type of access to perform their official duties, to protect data from loss through intentional or unintentional manipulation. Also, as the District official responsible for signing checks, the Treasurer plays a critical role in the cash disbursement process. The Treasurer must ensure that his signature is not used to make payments that have not been approved. In addition, audit logs and exception reports (computer-generated monitoring logs or reports) can be used to help offset control weaknesses resulting from the lack of segregation of duties. These tools provide a mechanism for tracking and ensuring individual accountability, reconstructing events, and problem monitoring.

The Board did not adequately safeguard the District's computerized data and assets by establishing and implementing appropriate control policies and procedures. Adequate and deliberate protection of computer data is necessary for District operations to proceed smoothly. District officials have not restricted employee access to only those modules of the computerized financial software that were required for their individual job descriptions and/or official duties. In addition, the Treasurer's electronic signature was embedded into the computerized financial system and applied to payroll checks by a BOCES employee. Also, the District's accounts payable clerk used the Treasurer's unprotected signature disk to apply his signature to warrant checks without his direct oversight. Finally, management's ability to detect and properly address unauthorized activities was limited because District officials did not review the software program's audit logs or exception reports.

### Access Rights

It is important for the District to restrict users' access to computer operations to only those functions that are required for individual employees' job descriptions and/or official duties. Also, user access must be granted to individuals in a manner that maintains proper segregation of duties.

We found that the District did not restrict users' access to only those modules that were required for their individual employee job descriptions and/or official duties. Specifically, we found that the Treasurer and a BOCES employee both serve as system administrators for the computerized financial system. A system administrator has complete access to the computerized financial package and the ability to add new users and change users' access rights. A good system of controls would segregate the duties of administering access to the computerized financial system and performing Business Office functions to reduce the risk that District financial information or resources could be misused.

In addition, the District clerk and three BOCES employees had excessive access rights to the payroll module of the computerized financial package giving them the ability to complete all aspects of a payroll transaction from beginning to end and full editing rights to the system. Because the Board had not developed policies and procedures requiring users' access rights to be reviewed on a regular basis, District employees had access to the system that was not warranted by their job descriptions. By allowing access beyond that which is necessary for employees' assigned duties, the District has an increased risk that errors and irregularities could occur and remain undetected and uncorrected.

### **Treasurer's Signature**

The Treasurer is the custodian of all District money. Education Law requires the Treasurer's actual or facsimile signature to be affixed to District checks by the Treasurer or affixed under his direct supervision. District checks were computer-generated with the Treasurer's signature already imprinted on them. The Treasurer's signature is available to be affixed to District checks in two ways: it is embedded into the computerized financial system's payroll module, and is available on a signature disk. A BOCES employee applies the Treasurer's signature onto the District's payroll checks through the computerized financial system's payroll module. The District's accounts payable clerk affixes the Treasurer's signature onto the District's warrant checks – without his direct supervision – using the signature disk, which is not password-protected. We also found that the Treasurer does not restrict physical access to his signature disk. Because the Treasurer does not directly supervise the signature process, District officials have no assurance that signed checks are for legitimate District purposes.

### **Audit Logs**

Good computerized financial systems provide a means of determining, on a constant basis, the identity of the individual accessing the system and what transactions were processed. Audit logs maintain a record of activity by system or application process. A useful audit log provides information such as the identity of each

person who has accessed the system, the time and date of the access, the activity that occurred, and the time and date of the user's logoff. Ideally, management, or management's designee, would review this audit log to monitor the activity of users who access the financial software. In addition, exception reports provide information on the access activities that are considered exceptions to the normal processes, such as weekend activity, transactions that exceed a particular dollar value, or attempted but denied access requests. Although the District's computerized financial system provided audit logs and exception reports, District management did not review either. As a result, management's ability to detect and properly address unauthorized activities was limited.

In addition to the serious lack of control over personal information in the payroll system, the lack of controlled access to the computerized accounting system, the lack of the Treasurer's control over his signature on District checks, and the failure of management to review audit logs and exception reports could result in errors or irregularities occurring and not being detected in a timely manner.

## **Recommendations**

1. The Superintendent should ensure that users' access rights to the financial accounting program are appropriately assigned and adequately segregated.
2. The Board should establish a policy and the Superintendent should develop procedures to routinely review access rights, audit logs, and exception reports.
3. The Treasurer should control when his signature is affixed to District checks and should maintain control of his signature disk.

## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

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

The District's response letter refers to an attachment that supports the response letter. Because the District's response letter provides sufficient detail of its actions, we did not include the attachment in Appendix A.

# PRATTSBURGH CENTRAL SCHOOL DISTRICT

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DISTRICT CLERK

February 12, 2008

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

To whom it may Concern:

The state comptroller auditor team performed a several month long assessment of all financial areas including financial accounting, segregation of duties, contractual issues, accounting, and inventory. After finding no significant issues in those areas, they performed a more extensive examination of our internal controls over information technology. The review focuses on our implementation and use of [REDACTED], our financial accounting software.

The audit team was extremely professional and courteous during their time here at the Prattsburgh Central School District. We appreciated the technical support and offering of suggestions that will help us become more efficient in our business operations. We appreciated the opportunity to access individuals with a high level of expertise.

**We are extremely pleased that no breaches of security (i.e. inappropriate personnel performing transactions of any sort) and no significant accounting irregularities were discovered** during the audit team's examination of financial transactions and use of information technology.

As a result of the audit, we have a clear understanding that when a number of individuals are provided with access to financial software; usage logs, rights, and exception reports must be closely monitored. Following the recommendations of the audit and as a result of the reorganization of the business office, controls on our business software have become a clearly identified task with oversight provided by the superintendent and the board of education.

We have initiated the following action plan to address the three recommendations found on page 8 of the DRAFT report. It should be noted that the district addressed recommendations 1 and 3 as soon as they were brought to our attention by the audit team.

**Recommendation 1:**

██████████ provides thorough reporting for the monitoring of user access rights and usage. We have reviewed access rights, audit logs, and exception reports on a regular basis since the fall of 2007. An administrator with no business related functions is the only individual in the district who can authorize changes to access rights.

**Recommendation 2:**

Recommendation 2 is currently being addressed as part of our annual policy review and update process. A policy will be adopted that outlines the roles and responsibilities of district officials to ensure the security controls available in our financial accounting software are in place and being monitored. (See attachment 1)

**Recommendation 3:**


The treasurer's electronic signature for accounts payable and payroll checks became password protected in September of 2007. Since then, only the treasurer has the password to affix signatures to any check.

Concerning accounts payable, although each check posting was verified by the claims auditor and by the treasurer, it was possible for the accounts payable clerk to print a check without immediate oversight. This was a flaw in our new accounts payable system that was corrected as soon as it was brought to our attention.

Concerning payroll, although the treasurer and our in-district payroll clerk did monitor each payroll as it was posted, it was possible for the clerk at BOCES who printed the checks to do so without immediate oversight. This was a flaw in the payroll module of our financial accounting system which was corrected as soon as it was brought to our attention.

Again, we wish to thank the members of the audit team assigned to the Prattsburgh Central School District audit for their assistance and recommendations.

Respectfully Submitted,



Joseph L. Rumsey  
Superintendent



Bruce E. Barrows  
President, Board of Education

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

To accomplish the objectives of this audit, we performed the following audit procedures:

- To test the financial management system, we requested a report containing all users' access rights to the District's financial accounting software, and a printed report of any changes made to the financial accounting software since its implementation. This information included the time, date, and user who made the change.
- We interviewed the Superintendent, Treasurer, accounts payable clerk, and District clerk about policies and procedures relating to the District's financial operations.
- We interviewed the BOCES employees who serve as the District's system administrator and payroll clerk.
- We interviewed the independent contractor responsible for the District's information system infrastructure regarding the policies and procedures involving data integrity and security measures followed.
- We reviewed key control activities of the Business Office including the manner in which bank accounts were reconciled, duties were assigned, and checks were signed.

- We performed a payroll payout at the District during the audit field work to address the user access rights to the payroll module and the Treasurers' lack of oversight over the affixing of his signature to payroll checks.
- We reviewed in detail transactions from 10 warrants from our audit period for proper documentation and compliance with District policy.

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.

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