



Remsenburg-Speonk Union Free School District Internal Controls Over Financial Operations

Report of Examination

Period Covered:

July 1, 2005 — November 30, 2006

2007M-251



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

February 2008

Dear School District Officials:

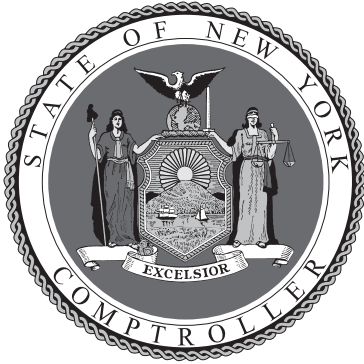
A top priority of the Office of the State Comptroller is to help school district officials manage their districts efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support district operations. The Comptroller oversees the fiscal affairs of districts statewide, 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 Remsenburg-Speonk Union Free School District, entitled *Internal Controls Over 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 Remsenburg-Speonk Union Free 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.

Scope and Objective

The objective of our audit was to examine the District's internal controls over financial operations for the period July 1, 2005 through November 30, 2006. Our audit addressed the following related questions:

- Are internal controls over purchasing appropriately designed and operating effectively to adequately safeguard District assets?
- Are the duties of the District Treasurer properly performed and adequately segregated?
- Did the Board establish comprehensive policies and procedures for the District's information technology (IT) operations to ensure that electronic data is adequately safeguarded?

Audit Results

District officials did not solicit competitive quotes or issue Requests for Proposal, as required by District purchasing regulations, when they procured \$39,533 in professional services (for physical and occupational therapy, special education, and teacher aid) from three providers. Further, District officials paid these three service providers without a written contract and without Board approval. Finally, seven of 18 purchases tested, totaling \$15,167, were made through "confirming" purchase orders – a retroactive mechanism to be used only on an exception basis – in place of a standard purchase-order process. Unless properly controlled, the use of confirming POs can circumvent internal controls and undermine a sound procurement process where available funds are verified prior to purchase authorization. As a result, District officials incur the risk of making purchases without assurance of obtaining the best quality services at the lowest price, and of overspending the District's budgetary appropriations.

The Board inappropriately curtailed the duties and responsibilities of the District Treasurer (Treasurer) and exceeded its authority by authorizing the Board's President (President) or Vice President to sign all District checks. The resulting lack of segregation of duties over the claims audit and cash disbursement functions creates a weakness in internal controls. As members of the Board which audits claims and authorizes their payment, the President and Vice President should not also disburse District moneys, which totaled approximately \$8.3 million during the 2005-06 fiscal year. As a result, the District is at risk of errors, irregularities, or fraud occurring and not being detected and corrected in a timely manner. However, our test of transactions found no inconsistencies among the claims vouchers, warrants, and cancelled checks reviewed.

Lastly, the District has not adopted a comprehensive computer security policy to address all major areas of IT operations, and District officials did not implement effective controls to safeguard the integrity of the IT system and electronic data. User access to financial applications and changes to financial data were not regularly monitored, and password security was inadequate. Further, the District did not have a disaster recovery plan in place to prevent the loss of equipment and financial data, and backup data was not properly secured or tested. As a result, the District's computer system and financial data are at risk of loss, damage, or misuse; and the District could incur financial loss from disrupted operations.

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. Except as specified in Appendix A, District officials generally agreed with our recommendations and indicated that they have initiated, or have planned to initiate, corrective action. OSC comments on the District's response can be found in Appendix B.

Introduction

Background

The Remsenburg-Speonk Union Free 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 Superintendent was also appointed by the Board as the District's purchasing agent.

The District operates one school for kindergarten through grade 6 with approximately 190 students and 47 employees. Approximately 163 students also attend grades 7 through 12 at neighboring school districts. For the fiscal year ending June 30, 2006, the District spent approximately \$8.3 million, of which \$3.4 million paid tuition costs for the 163 students attending neighboring schools. Appropriations budgeted for the 2006-07 fiscal year are \$9.8 million, of which \$3.8 million is budgeted for middle and high school tuition costs. District expenditures are funded primarily by real property taxes.

Objective

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

- Are internal controls over purchasing appropriately designed and operating effectively to adequately safeguard District assets?
- Are the duties of the District Treasurer properly performed and adequately segregated?
- Did the Board establish comprehensive policies and procedures for the District's information technology (IT) operations to ensure that electronic data is adequately safeguarded?

Scope and Methodology

During this audit we examined internal controls over financial operations for the period July 1, 2005 to November 30, 2006.

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 C 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. Except as specified in Appendix A, District officials generally agreed with our recommendations and indicated that they have initiated, or have planned to initiate, corrective action. OSC comments on the District's response can be found in Appendix B.

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*.

Purchasing

General Municipal Law requires school districts to adopt written policies and procedures for the procurement of goods and services that are not subject to competitive bidding requirements. An effective procurement process helps the District obtain services, supplies, and equipment of suitable quality and quantity, from the best qualified and lowest-priced source, and in compliance with Board and legal requirements. This process helps the District expend taxpayer dollars efficiently and guards against favoritism, extravagance, and fraud. Effective controls over the purchasing process include the use of a purchase order system, under which a fiscal officer typically verifies that funds are available for a requisitioned purchase and then issues a purchase order (PO) to the vendor to acquire the goods or services.

We found deficiencies in the District's controls and procedures over the procurement of professional services and the use of purchase orders. District officials did not always solicit competitive quotes or issue requests for proposal, as required by the District's purchasing policy, when procuring professional services, and allowed professional service providers to be paid without written contracts or Board approval. Further, the District used "confirming" purchase orders to record purchases after they were made, instead of issuing purchase orders in advance to obtain proper authorization and ensure that adequate funds are appropriated before an order is placed. As a result, internal controls are circumvented and District officials do not have adequate assurance that goods and services of suitable quality are procured at the best price.

Professional Service Contracts and Requests for Proposals

Education Law gives the Board broad powers, including the approval of contracts. The Board should approve all procurement contracts before the goods and services are provided. A written agreement for professional services provides the District and the service provider with a clearly defined and mutually agreed-upon basis for determining entitlement to payments. Having a contract in place also enables the Board to properly audit claims to ensure they are accurate and for appropriate District purposes.

The Board appointed the Superintendent to serve as the District's purchasing agent. The District's purchasing policy, as supplemented by regulations, requires District personnel to solicit written quotes for services costing between \$10,000 and \$20,000 and verbal quotes for service contracts between \$500 and \$9,999. The policies further require the use of Requests for Proposals (RFPs) for procuring

professional services. We identified payments to 13 professional services providers ranging from \$2,000 to \$25,600 and totaling approximately \$85,000 during the 2005-06 fiscal year. Of these, we tested payments to four providers totaling \$46,543 (55 percent of the payments) to determine if the services were procured in accordance with the District's purchasing policy and whether written contracts were executed and approved by the Board. We found that District officials did not solicit competitive quotes or issue RFPs when procuring professional services from three providers totaling \$39,533 (\$32,633 for occupational and physical therapy and special education, and \$6,900 in teacher aid). The District also paid these three providers without a written contract and without Board approval. As a result, the District is at risk of procuring services that may not be of the best quality at the lowest price.

Without a written contract specifying the responsibilities of both parties and defining a mutually agreed-upon basis for compensation, the Board cannot properly audit the claims submitted for payment nor determine if the providers were entitled to payment for billed services. As a result, the Board does not have assurance that District moneys were expended prudently and in the best interest of the taxpayers.

Confirming Purchase Orders

A properly functioning purchase order system helps control District expenditures by ensuring that purchases are properly authorized and budget appropriations are not overspent. The PO also serves as a cross-reference to the vendor's invoice and is the source document for District claims entered into the accounting system. A "confirming" PO refers to a purchase order issued after the goods or services have already been ordered and/or received. The use of confirming POs should be strictly controlled and reserved for emergency situations when the use of the standard PO process is not possible.

We tested 18 purchases totaling over \$132,000 to determine if POs were properly authorized, approved, and issued before goods and services were received. For seven of the 18 purchases, totaling \$15,167, POs were issued only after the purchases had already been made. Although there are situations where the use of confirming POs is appropriate, none of the transactions we tested were emergency purchases. The routine use of confirming POs circumvents internal controls and weakens the procurement process. As a result, District officials are at risk of overspending budget appropriations and do not have adequate assurance that goods and services of high quality are procured at the lowest price.

Recommendations

1. The District purchasing agent should obtain competitive quotes through the use of RFPs when procuring the services of professionals.

2. The Board should approve all contracts for professional services and ensure that District officials enter into written agreements with all professional service providers. Such agreements should specify the contract period, the nature and quantity of the professional services being procured, and the specific conditions that entitle the provider to compensation.
3. The Board should adopt procedures to limit the use of confirming POs and specify the exceptional circumstances under which they can be issued.

Treasurer's Duties

Education Law establishes the Treasurer as the custodian of all District moneys, responsible for depositing such moneys in designated banks and disbursing them only upon receipt of a signed warrant or certified payroll. The Board may also require checks to be countersigned by a District officer or Board member in addition to the Treasurer; and may designate a Board member or a Deputy Treasurer to sign checks in lieu of the Treasurer or other required signatories when those officers are unable to do so. Education Law also requires that, as the custodian of all District moneys, the Treasurer or other designated signatories must execute and file an official undertaking (surety bond), in an amount designated by the Board, to insure the District against loss. The Board is responsible for the audit of claims against the District before approving them for payment by the Treasurer.

Our audit found that controls over disbursements were not adequate. The Board improperly authorized its President and Vice President to sign all District checks in place of the Treasurer, thereby not complying with Education Law and the District's own job description for the Treasurer's position. This practice also compromised the segregation of duties over the claims audit and cash disbursement functions by allowing the same individuals who approved the claims to also pay them. Further, the Business Manager approved and performed all inter-bank wire transfers without the Treasurer's approval, weakening internal controls over disbursement. By impeding the Treasurer's performance of the District's disbursement functions, the Board has jeopardized the District's ability to recover improperly disbursed moneys in the event of errors or irregularities. However, our test of transactions found no inconsistencies among the claims vouchers, warrants, and cancelled checks reviewed.

Authorization to Sign Checks — On July 11, 2005, the Board authorized its President or Vice President to sign all District checks. This practice is not in compliance with Education Law and the District's own job description which require the Treasurer to disburse all District moneys for salaries, expenses, and financial obligations. Therefore, the Board inappropriately curtailed the Treasurer's duties and responsibilities and exceeded its authority when it authorized either the President or the Vice President to routinely sign all District checks – not as alternates in the Treasurer's absence, but as the sole signatories in the Treasurer's place. District personnel said this practice had been in effect since 2003.

Segregation of Duties — As members of the Board that audits claims and authorizes their payment, the President and Vice President should not also disburse District moneys. In addition to our examination of professional services procurements and other purchases (as described in the Purchasing section, above), we judgmentally selected 10 transactions totaling approximately \$14,350 and tested them for inconsistencies in claims amounts or payees. Of these 10 transactions, we traced five cancelled checks back to the claim vouchers, and five claims from the warrants forward to the cancelled checks. We found no inconsistencies among the claims vouchers, warrants, and cancelled checks. However, by authorizing two Board members to sign all checks issued by the District, the Board compromised the segregation of duties over the claims audit and cash disbursement functions, creating a significant weakness in internal controls which could result in erroneous or improper payments being made without detection and correction.

Authorization of Wire Transfers — Wire transfers provide a means of direct access to the moneys held in the District's name. Appropriate controls over wire transfer activity should include management authorization of a transaction before the transaction is initiated; itemized documentation to support the purpose, source, destination and amount of the transaction; and documentation to appropriately account for and record the transaction. District officials should also segregate the duties involved in wire transfer activity. If the same person approves, performs, and confirms the wire transfers, that individual could make an error that is not detected or conceal an unauthorized transfer. We found, however, that the Business Manager approved and performed all inter-bank wire transfers without the Treasurer's prior review and approval. (For the month of June 2006 alone, inter-bank wire transfers totaled approximately \$846,000.) The Superintendent, not the Treasurer, approved wire transfers after the fact and then reported them to the Board. As a result, internal controls over disbursements were weakened and the segregation of duties was inadequate, increasing the risk of erroneous or inappropriate transfer of funds.

Recommendations

4. The Board should discontinue the practice of the President or Vice President signing District checks as the primary signatory. If the Board properly designates a Deputy Treasurer or other official as an alternate signatory to the Treasurer, such individual should also file an official undertaking (surety bond) in an amount designated by the Board.
5. The Treasurer or a Board-designated Deputy Treasurer must sign all District checks, and the Treasurer must authorize all wire transfers. The Board may designate a District official or Board member to co-sign District checks.

Information Technology

Computer data is a valuable resource that District officials rely on for initiating, processing, and recording the District's financial transactions; for filing reports with State and Federal agencies; and for making sound financial decisions in the best interests of the District. If the computers on which this data is stored fail, the problems that result could range from inconvenient to severe. Even small disruptions in electronic data systems can require extensive effort to evaluate and repair.

District officials are responsible for establishing and implementing internal controls, including policies and procedures, to provide reasonable assurance that assets and resources are adequately safeguarded against waste, loss, and misuse. Specifically, access to computer data systems should be controlled and monitored to reduce the risk of misuse and/or alteration of data resulting in potential financial loss to the District. Additionally, a formal disaster plan is necessary to guide employees in preventing the loss of computer data, and in recovering computer data and restoring computer operations in the event of a disaster.

District officials have not adopted comprehensive information technology (IT) policies and procedures, and the District does not have a formal disaster recovery plan. As a result, the District's IT system and electronic data are subject to increased risk of loss or misuse.

Policies and Procedures — Policies and procedures addressing IT operations are an integral part of a district's internal controls. The pervasive use and complexity of the computer applications produce internal control risks, such as unauthorized access to data, unauthorized changes to master files, and potential loss of data. District officials can mitigate these risks through a combination of automated controls (embedded in computer programs) and manual controls to limit user access and to protect data from intentional or unintentional manipulation.

The District does not have a comprehensive IT policy that adequately addresses all major areas of IT operations. The failure to establish comprehensive policies and procedures related to IT, and to implement key controls over IT operations, increases the risk of computerized data and equipment being damaged, misused, or lost. Further, the District has an increased risk of financial loss from the unexpected disruption of computer operations and the reduced productivity of its employees during such interruptions.

Audit Logs — The District’s financial software can produce an audit log (report) that indicates when and where users access the computer system, and can also generate an edit listing of all changes (edits) made to master files. The District’s financial software program is installed only on the Business Manager’s computer. The Business Manager, who is also the system administrator, grants access rights to the Treasurer and an accounting clerk. However, the Business Manager did not use the system to routinely generate and review either audit logs or edit listings to monitor system use.

In addition, the software vendor had remote access to the application functions within the system for technical assistance and updates. Although the vendor routinely notified the District in advance before the Business Manager granted remote access (which was terminated after the system updates were completed or the technical issues resolved), the Business Manager did not keep a record detailing the times and reasons for the remote access. As a result, there is a risk of the District’s system being compromised without District officials readily detecting the problem.

Passwords — To control electronic access, a computer system or application should identify and differentiate among users. User accounts identify users and establish relationships between a user and a network, computer, or application. The system administrator creates accounts that contain information about the users, such as access rights to files, applications, directories, and other computer resources. To access a network, computer, or application, users are required to enter their user name and password. It is essential to establish and safeguard system passwords to prevent unauthorized users from gaining access to and misusing system data. An effective policy requires users to change passwords every 30 to 90 days to protect confidentiality, and to create passwords that satisfy complexity requirements. Strong passwords contain combinations of uppercase and lowercase letters, numbers, and punctuation; are at least eight characters long; and are not common words.

The Business Manager, Treasurer, and accounting clerk used their own passwords to access the District’s financial software program on the Business Manager’s computer and perform duties relating to budgeting, purchase orders, cash disbursements, and payroll. However, the District does not require users to periodically change their passwords, which are initially established at employment. The Business Manager, for example, had been using the same password for five years. The use of the same password over an extended period – combined with weak password complexity – can help unauthorized users obtain passwords and gain access to the system with less

difficulty. As a result, the security of the District's computer system is reduced and its sensitive data is at an increased risk of loss, theft, or misuse.

Disaster Recovery Plan — A disaster recovery plan, sometimes called a business continuity plan, specifies how an organization should deal with a disaster such as a power outage, hardware failure, fire, flood, or storm. Through contingency planning and appropriate precautions to protect its IT system and data, the District can avert or minimize potential damage and maintain or quickly resume critical operations in the event of a disruption.

The District has not established formal policies or procedures to address potential disasters. As a result, in the event of computer failure, District personnel have no guidelines or plan to prevent the loss of equipment and data or to recover data that has been lost or damaged.

Storage and Restoration of Backup Data — The District's ability to restore computer data relies on the integrity of its backup data. To establish its validity, the data on backup must be tested and restored on a routine basis.

The District's financial data is maintained in the Business Manager's computer and backed up weekly on the primary server. The data is also backed up to a portable drive and stored in a remote location; however, this location is not properly secured or fireproof. District officials did not test the restoration of backup data because the financial software was installed on only one computer, and the District's working data could conceivably be corrupted by restoring backup data as a test on the same machine. However, District officials did indicate that they will test the backup data when the District purchases a new computer. By not testing the backup data, and storing it near the business application in a non-secured and non-fireproof location, District officials compromise the District's ability to recover its data and restore computer operations in the event of a disaster.

Recommendations

6. The District should develop a comprehensive computer security policy that addresses the proper use of computer assets, including periodic monitoring of system access and data edits; requirements for password security; procedures for granting remote access to computer resources; and procedures for conducting backups, offsite storage of backup media, and periodic test restoration of backup data.

7. District officials should periodically review the financial application's audit log of system access and the edit listing of changes to master files to ensure consistency and appropriateness of users' access and changes made to the District's financial data. District officials should also maintain and periodically review a log of permissions granted for remote access to the IT system and specifically to the financial application.
8. District officials should implement automated system controls to ensure that all users change their passwords for access to the financial application every 30 to 90 days and that all passwords meet rigorous complexity requirements.
9. The District should develop a disaster recovery plan and policies and procedures to strengthen internal controls over computer data storage and disaster recovery, including precautions to prevent or minimize the effects of a disruption; and ensure that District officials know and implement these policies and procedures as appropriate.
10. District officials should test the integrity and validity of the backup financial data, and the effectiveness of backup procedures, by periodically restoring the backup data.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



Remsenburg - Speonk U.F.S.D.

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January 31, 2008

[REDACTED]
Office of the State Comptroller
New York State Office Building, Room 3A-10
250 Veterans Memorial Highway
Hauppauge, New York 11788

Re: Response to the Report of Examination

Dear [REDACTED],

We are in receipt of the Report of Examination and recommendations for the period covered: July 1, 2005 – November 30, 2006. As of this date, the District has corrected or is in the process of correcting all recommendations listed in the report. We appreciate that you recognized the fact that you “found no inconsistencies among the claims, vouchers, warrants, and cancelled checks” as we are a District that takes great pride in the integrity of our financial operation.

Purchasing

Professional Service Contracts and Requests for Proposals (RFP) – The Comptroller’s report refers to not getting proposals for certain professional services. These services are predominantly for OT, PT, Special Education, and Teacher Aide. Please note that the District did not get proposals for these services because the professionals used by the District had been specifically identified through the Committee for Special Education process, which is confidential in nature.

We do concur that it is important to request proposals for professional services, and we will ensure that this is done in the future. However, if a professional is identified through the Committee for Special Education process (i.e., the committee believes that a specific provider best meets the educational needs of the individual child) this will be documented within the student’s Individual Education Plan (IEP).

Also, please note all professional service providers are contracted through written agreements approved by the Board of Education.

Confirming Purchase Orders – In the past, when the District purchased small amounts of materials and supplies, it would purchase these items locally. Although these purchases did not go through the formal purchase order process, we believe that we were getting the best possible price. However, we concur with the Comptroller’s office that purchases should go through the formal purchase order process. Therefore, in order to comply with this process for small purchases of materials and supplies we will utilize, as recommended by the Comptroller’s office, a blanket purchase order procedure. A blanket purchase order will not only be the formal authority to purchase these small amounts of materials and supplies but will also place a dollar limit on the amount to be spent with a particular vendor during the year.

Treasurer’s Duties

Authorization to Sign Checks – The Board of Education understood their responsibility to monitor the expenditures and they impose upon themselves the task to review every check. They do not have access to the blank checks or the computer. The Business Manager prepares the authorization, and the Board of Education reviews and signs the checks in order to protect the assets of the District. As of May, 2007, the Board no longer signs the checks. The treasurer now signs all of the checks. The Board of Education continues to review all claims and authorizes the treasurer to sign the checks.

Segregation of Duties – We believe that we had sufficiently segregated the duties already. For example, the Board President signed the checks but did not have access to the check stock or have permission to enter the computer system. However, we agree with the Comptroller’s recommendation to an additional segregation of duties whereby the treasurer will sign the checks. Also, please note that as mentioned in the report there were no inconsistencies among the claims, vouchers, warrants, and cancelled checks.

Authorization of Wire Transfers – The wire transfers referred to in the report were transfers between District accounts (i.e., money never left the District). Nevertheless, we will comply with the Comptroller’s recommendation to have the treasurer authorize all wire transfers before they are made.

Information Technology

Over the years, the District has been utilizing an accounting software package that has been adequately recording the financial transactions of the District. However, the District’s provider has not kept pace with technological improvements including the implementation of safeguards. As a result, the District has determined to change to a new software package that will be provided through BOCES. This software will allow the District to have the desired safeguards.

See Note 1 Page 22

We agree with the Comptroller's recommendations and are in the process of developing a comprehensive computer security policy that will address the following areas: policies and procedures, audit logs, passwords, disaster recovery plan, and storage and restoration of backup data.

Once again, thank you for your professionalism and help in maintaining the integrity of our school district.

Sincerely,

A handwritten signature in blue ink that reads "Katherine M. Salomone". The signature is written in a cursive style with a large, looped initial 'K'.

Katherine M. Salomone, Ed.D.
Superintendent

APPENDIX B

OSC COMMENTS ON THE DISTRICT'S RESPONSE

Note 1

We acknowledge the District's comment that, although the Board President signed the checks, that individual did not have access to the check stock or permission to enter the computer system. As stated, our audit found no inconsistencies among the claims vouchers, warrants, and cancelled checks. However, the proper segregation of duties requires that, as a member of the Board that audits claims and authorizes their payment, the Board President should not also disburse District moneys.

APPENDIX C

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 upon the reported objectives and scope by selecting for audit those areas most at risk. We selected information technology, cash disbursements, claims processing, and purchasing for further audit testing.

Our examination included the following:

- We interviewed District personnel and evaluated the internal controls and safeguards over computer-generated data.
- We reviewed the formal policy for purchasing and determined if it adequately addressed the procurement of goods and services.
- We verified that purchases were made, goods were received, and claims were processed as authorized.
- We examined paid claims against contractual agreements to confirm rates and services.
- We examined bid, quote, and RFP documentation to determine if the lowest-priced responsible vendor was selected.
- We examined purchase agreements and contracts for evidence of authorized signatures and proper dates.

We conducted our 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 D

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