



# South Orangetown Central School District

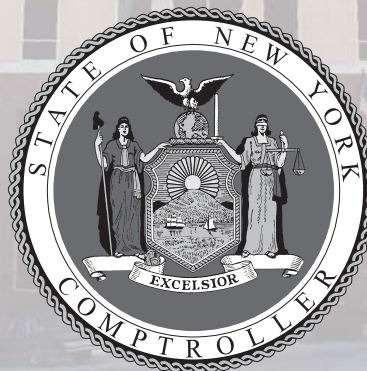
## Internal Controls Over Selected Financial Activities

Report of Examination

Period Covered:

July 1, 2006 — April 15, 2008

2008M-185



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**

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

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

Respectfully submitted,

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



## State of New York Office of the State Comptroller

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# EXECUTIVE SUMMARY

The South Orangetown 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.

There are five schools in operation within the District, with approximately 3,600 students and 500 employees. The District's budgeted expenditures for the 2006-07 fiscal year were approximately \$65.7 million, which were funded primarily with State aid, real property taxes, and grants.

### **Scope and Objective**

The objective of our audit was to examine the District's internal controls over selected financial activities for the period July 1, 2006 through April 15, 2008. Our audit addressed the following related questions:

- Are internal controls over the District's IT system appropriately designed and operating effectively to adequately safeguard District assets?
- Are internal controls related to the payment of overtime appropriately designed and operating effectively to adequately safeguard District assets?
- Are internal controls over the procurement of professional services appropriately designed and operating effectively to adequately safeguard District assets?
- Has the District properly established and appropriately maintained the employee benefit accrued liability reserve fund?

### **Audit Results**

We found weaknesses in several of the District's financial operations, caused by a lack of sufficient controls over operations. Our review of the District's IT system disclosed weaknesses in the controls over financial information and student data applications, primarily due to the lack of policies and procedures. As a result, password and log-in security requirements were inadequate. Certain Business Office employees had user rights that were not consistent with their duties, weakening the

segregation of duties within the financial software application. For example, the Treasurer and Deputy Treasurer had user rights that allowed them to generate cash and payroll disbursements. The payroll clerk had the ability to initiate cash disbursements, print checks and create vendor accounts. In addition, the senior accounts clerk was able to initiate and process cash disbursements and print checks. As a result, the District is exposed to the risk that improper disbursements could occur without being detected. Further, computer system user rights for nine former employees were not terminated timely when they left District service. Even though our tests did not disclose instances of impropriety, inadequate controls over the IT system expose the District to the risk that unauthorized users could access the system and cause the misuse, loss, or inappropriate modification or disclosure of the District's sensitive information.

We also identified instances where control weaknesses allowed custodial and maintenance employees to receive overtime pay without the required approval and supporting documentation. Overtime was not pre-approved, and there was no system to document the overtime work performed. As a result, we found no supporting documentation to show that five employees, who were paid a combined total of \$42,816, received approval prior to working overtime. In addition, the District paid five other employees a total of \$5,153 in overtime with no evidence that they actually worked the hours for which the overtime was paid. Without properly documented approvals for overtime, District officials cannot be assured that the payments were correct and represented proper District expenditures.

District officials did not always follow the District's policy when procuring professional services. As a result, District officials did not use request for proposals (RFPs) or other forms of competition to obtain the services of seven service providers. Payments to these providers totaled approximately \$48,700. In addition, the District did not enter into formal contracts with four of the seven professional service providers. The District paid these service providers approximately \$30,900. Therefore, District taxpayers cannot be assured that professional services were obtained in the most prudent and economical manner.

We found the District appropriately established and maintained its EBALR. At June 30, 2007, the EBALR had a balance of \$733,227. The EBALR fund balance is conservative and based on reasonable assumptions regarding possible retirements or separations from District service.

### **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 they planned to take corrective action. Appendix B includes our comment on the issue raised in the District's response letter.

# Introduction

## Background

The South Orangetown School District (District) is located in South Orangetown, Rockland 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 are five schools in operation within the District, with approximately 3,600 students and 500 employees. The District's budgeted expenditures for the 2006-07 fiscal year were approximately \$65.7 million, which were funded primarily with State aid, real property taxes, and grants.

The Deputy Superintendent, who is also the Board appointed purchasing agent, is responsible for the day to day operations of the District's Business Office.

## Objective

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

- Are internal controls over the District's IT system appropriately designed and operating effectively to adequately safeguard District assets?
- Are internal controls related to the payment of overtime appropriately designed and operating effectively to adequately safeguard District assets?
- Are internal controls over the procurement of professional services appropriately designed and operating effectively to adequately safeguard District assets?
- Has the District properly established and appropriately maintained the employee benefit accrued liability reserve fund?

## Scope and Methodology

We examined the internal controls over selected financial activities of the District for the period July 1, 2006 to April 15, 2008.

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 they planned to take corrective action. Appendix B includes our comment on the issue raised in the District's response letter.

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.

## Information Technology

The District's Information Technology (IT) system is a valuable and essential part of the District's operations. It is used to provide computer education, access the Internet, communicate by electronic mail (email), store student data, and maintain financial records. The potential consequences of a failure of the IT system range from inconvenience to severe disruptions of services; even small disruptions in processing can require extensive time and effort to evaluate and repair. Accordingly, District officials are responsible for establishing internal controls over the IT system to ensure that District assets are protected. Such controls should address user access rights, change notification and physical security of computer resources.

We found that District management did not establish sufficient internal controls over the key components of the District's IT system. As a result, the District's IT system and data are exposed to potential misuse, loss, or improper disclosure, increasing the risk that the District could incur costly disruption of its critical operations.

### User Access Rights

Internal controls over user access to the IT system provide reasonable assurance that computer resources – which include equipment, data files, application programs, and computer-related facilities – are protected from unauthorized use and modifications. To control electronic access, a computer system or application needs a process to identify and differentiate users. User accounts, normally created by the system administrator, contain information on each user such as passwords and access rights to files, applications, directories, and other computer resources. Effective access controls prevent users from being involved in multiple aspects of financial transactions and from accessing unauthorized areas where they can intentionally or unintentionally destroy or change critical data. Key access controls include:

- Secure password requirements and a “lock-out” mechanism to help block attempts at unauthorized access
- Segregation of duties within the IT environment by limiting user access rights to only those applications necessary for employees' day-to-day responsibilities
- Policies and procedures for authorizing and documenting changes to user access rights, for notifying IT personnel of required changes, and for limiting administrator accounts which allow individuals to change user access rights.

District management did not have policies and procedures addressing password security or other automated controls to safeguard against unauthorized access to the District's IT system. We informed the District officials of our finding during the fieldwork, and the Board subsequently adopted policies and procedures for password security. In addition, we were informed by the new Director of Technology that he was in the process of implementing a system lock-out feature to protect against unauthorized access.

Further, the process to remove user accounts in the financial systems was not designed properly or working as intended. As a result, the District's IT system and data is at an increased risk of misuse or damage, with the potential for unauthorized transactions.

User Rights/Segregation of Duties – To ensure that adequate internal controls exist, District employees' access rights to computer software applications should be based on their job responsibilities. Limiting user rights helps provide assurance that computer resources are protected from unauthorized use or modification. Good internal controls require the separation of duties for recordkeeping, transaction approval, cash disbursements, cash custody, and bank statement reconciliations. By ensuring that no one individual controls all or most aspects of the cash management function, District officials can have greater assurance that the District's assets are being properly accounted for and safeguarded, reducing the District's risk of incurring errors and irregularities.

The former Director of Technology did not adequately limit user rights to the District's financial software application. Four Business Office staff members had access to aspects of the accounting system that were not a required part of their job function, resulting in inadequate segregation of duties within the IT environment. For example, the Treasurer and Deputy Treasurer had user rights that allowed them to generate cash and payroll disbursements. The payroll clerk had the ability to initiate cash disbursements, print checks and create vendor accounts. Also, the senior accounts clerk was able to initiate and process cash disbursements and print checks.

Because of these weaknesses, we examined all payments, including payroll items, totaling \$236,585 (\$236,290 in payroll payments and \$295 in other payments) made to the Treasurer, Deputy Treasurer, payroll clerk, and senior accounts clerk in the 2006-07 fiscal year. We found no exceptions with these payments. However, weak access controls diminish the reliability of computerized data and increases the risk of inappropriate modification or disclosure of data and the loss of District assets. After we brought this issue to their attention,

District officials informed us that they were in the process of correcting the situation.

Authorization and Notification of Changes to User Access Rights – Effective access controls require that authorized users’ specific needs, and any modifications, are approved by a senior manager and directly communicated in writing to the technology director or the individual authorized to have administrative rights. It is especially important that an employee’s termination or revocation of access rights be communicated immediately. A formal process for transmitting these authorizations, including standardized access request forms, reduces the risk of errors and misunderstandings. Although notification may be provided by the Human Resources Department or by others, policies should be in place that clearly assign responsibility for such notifications. The Director of Technology should review authorizations for new or modified access privileges and discuss any questionable authorizations with the authorizing official. Approved authorizations should be kept on file. Proper documentation of user access rights and authorizations help District officials to ensure the segregation of duties, monitor the work of third-party providers of IT services, and identify and correct any errors or irregularities that may arise from unauthorized system access.

The District contracted with the Southern Westchester BOCES (BOCES) to add, delete or change user rights in the financial software system. The process starts with the Human Resources Office informing the Treasurer of the user rights that need to be added, deleted, or changed. In turn, the Treasurer instructs BOCES, via e-mail, to proceed with the changes.<sup>1</sup>

However, the former Director of Technology and the Treasurer did not follow the established procedure to terminate the access rights to the financial software system for 9 of 10 employees who left the District’s service during our audit period. Access to the financial system for these employees remained active for periods ranging from three days to 26 months after the employees left District service. District officials could not provide an explanation why access rights were not terminated on a timely basis. In addition, because the District students’ data software did not log when user rights were terminated, District officials are unable to determine whether access rights to the student data software were terminated timely.

## **Physical Security**

Physical Access to Server Room – Maintaining adequate security over District assets helps to ensure that the items are protected from loss and used for their intended purpose. District officials can

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<sup>1</sup> The Treasurer assumed this responsibility September 24, 2007, when the former Director of Technology left the District’s services.

establish security over IT systems and equipment by controlling access to servers and components and by physically securing network components in a restricted-access room.

District officials have not adequately addressed the physical security of their computerized assets. The Director of Technology informed us that, because of inadequate climate control in the server room, he often had to leave the room unlocked and the door open during the school day to avoid damage to equipment from overheating. In addition, we found that only one of five server rooms was minimally secured from fire and water damage. Therefore, unauthorized personnel and students could potentially access the server room and compromise the equipment, in addition to the risk of damage by fire or water.

Data Backup – An effective system of internal controls to safeguard computerized data includes policies and procedures designed to minimize the loss of essential data. Such policies and procedures should address the restoration of data if it is unavoidably lost or corrupted. Data should be backed up on a routine basis and back-up copies should be stored at an environmentally and physically secure off-site location to ensure against loss in the event of a disaster at the server location site. Periodically the data should be restored using the back-up copy to verify the integrity of the process.

Although the District routinely backs up its financial and student data, it does not store the data in a secure location. The data is stored at the home of a Southern Westchester BOCES employee. In addition, the District does not periodically use the backup tapes to restore the system, to ensure the integrity of the process. We were informed by the Director of Technology that the District had not instituted a system to safeguard the data backup or to use the back-up tapes to restore the system to ensure the integrity of the process. In the event of a system failure, the District could lose a substantial amount of financial and student data. In addition, storing essential District data at the home of an employee is a security risk and could lead to significant problems if the backup data is lost or stolen.

## **Recommendations**

1. District officials should adopt policies and procedures to establish user access controls that safeguard the District's computerized data and other IT assets. In addition, District officials should ensure that access rights are terminated on a timely basis.
2. District officials should ensure that servers are located in an environment that is protected from heat and from water and fire damage. Access to server rooms should be monitored and restricted.

3. District officials should ensure that the District's backup data is maintained in a secure location.
4. District officials should periodically use the backup tapes to restore the system, to ensure the integrity of the process.

## Overtime

A good system of internal controls consists of policies, practices and procedures that provide reasonable assurance that resources are being properly accounted for and safeguarded. An important component of any internal control system is to certify that the persons included in the payroll have regularly performed their duties in accordance with the terms of their employment contracts. Another component of internal controls is to ensure that all overtime payments to employees are pre-approved and properly documented.

Critical controls over payroll and overtime expenditures include written pre-approval of overtime worked; supporting documentation of work performed (for example, work orders); approval of the employee's timesheet for payment; and documentation that shows when an employee's regular work schedule changes. These controls help ensure that the District incurs only necessary overtime costs. Overtime records should indicate the date, time of day, and purpose of overtime. These records, combined with proper authorization and documentation of work performed, provide an acceptable method of documenting overtime worked.

Overtime is normally generated for non-salaried employees after they have worked in excess of 40 hours in a work week. Employees are usually compensated for overtime at the rate of time and a half for excess hours worked on weekdays and Saturdays and double time for excess hours worked on Sundays and paid holidays. The District paid approximately \$170,700 in overtime for the 2006-07 fiscal year.

Our review identified instances where control weaknesses allowed employees to receive overtime pay without the required approval and supporting documentation to show that work was performed. In addition, the District did not have a system in place to document changes in an employee's regular work schedule.

Because of these weaknesses, we selected five out of 27 custodial and maintenance employees that worked overtime during our audit period to determine if they received prior approval to work overtime. We found no supporting documentation to show that those five employees, who were paid a combined total of \$42,816, received approval prior to working overtime. The Deputy Superintendent informed us that pre-approval of overtime is given verbally.

We also reviewed a sample of five additional custodial and maintenance workers who were paid the highest dollar value of overtime during our audit period to determine if the District had supporting documentation to show that the overtime was worked. The District paid these five employees a total of \$5,153 in overtime with no evidence that they actually worked the hours for which the overtime was paid. The Deputy Superintendent told us that the former Director of Facilities had not instituted a system to document overtime work performed.

In addition, changes in employee work schedules are not documented, which increases the risk that inaccurate payments will be made and not be detected. For example, four employees were overpaid a total of \$1,400 because their salaries were calculated using the overtime rate instead of the regular rate. The employees' time records showed that overtime worked occurred during the employees' regular work schedules. The Treasurer told us that the employees' work schedules changed, but the District did not document the change.

Due to these weak controls, District officials failed to ensure that overtime was pre-approved and documented to verify actual hours worked and to indicate the purpose of the overtime. As a result, there is an increased risk that the District will incur excessive overtime or make unauthorized and inaccurate overtime payments. The Board subsequently adopted an overtime policy to address the weaknesses.

## **Recommendations**

5. District officials should make sure that all overtime is pre-approved and documented.
6. District officials should institute a process to provide supporting documentation showing that overtime paid was actually worked.
7. District officials should document changes in employees' work schedules.
8. The Director of Facilities should ensure that timesheets clearly indicate the number of regular and overtime hours if any, and District officials should instruct the payroll clerk to apply the appropriate rate when calculating employees' pay.

## Professional Services

District officials are responsible for ensuring that internal controls exist to ensure the prudent and economical use of District moneys when procuring goods and services. The objectives of a procurement process are to obtain goods and services of the desired quality and quantity at the lowest price in compliance with applicable Board and legal requirements. This helps ensure that taxpayer dollars are expended in the most efficient manner. In addition, internal controls over contractual services are necessary to ensure that contractors are appropriately compensated and that the District receives the negotiated goods and services. To ensure that contractors are paid the compensation to which they are entitled, such payments must be clearly defined and authorized by the Board. Written agreements provide both parties with a clear understanding of the services that are expected to be provided and the amount of compensation for those services.

The District's procurement policy states that alternate proposals, written or verbal quotations, or other appropriate methods of procurement shall be used to secure professional services. However, District officials did not solicit RFPs or use any other form of competition to obtain certain professional services during our audit period, as required by District procurement policy. Therefore, there is no assurance that purchases were made at the lowest cost to the taxpayers.

We reviewed 10 professional services procured during our audit period, totaling approximately \$73,700, to determine if District officials followed the District's purchasing policy, whether they properly contracted with service providers, and that the consultants were classified correctly. We found that seven of the 10 services procured, which totaled approximately \$48,700, were procured without use of competitive methods such as RFPs or quotations. A breakdown of the purchases follows:

- Web-site Design - \$12,457
- Audio/Visual Repair Service - \$10,000
- Individual Education Plan (IEP)<sup>2</sup> - \$9,104
- Psychological Evaluations (from two separate vendors) - \$9,200

<sup>2</sup> An IEP is a unique plan for each student based on his or her needs. It clearly states what specialized instructional services the child will receive during the fiscal year.

- Bullying Prevention program - \$4,250
- Pianist - \$3,712

Although the Board has adopted a purchasing policy, the policy does not address contracting with the providers of professional services. District officials did not enter into written agreements with four of the seven professional services providers who received a total of \$30,900. Failure to procure professional services in a manner that assures the prudent and economical use of public moneys could result in the District paying more for these services than necessary. The absence of a contract that stipulates the rights and responsibilities of all parties could impair the District's ability to monitor the intended purpose of the work performed and to ensure that related payments are reasonable and appropriate.

### **Recommendations**

9. District officials should procure professional services in accordance with the Board's adopted policies.
10. District official should enter into written agreements with all professional service providers. These agreements should clearly state the terms of the contract stipulating the services to be provided and the basis for compensation.

## Employee Benefit Accrued Liability Reserve Fund

School districts can establish an Employee Benefit Accrued Liability Reserve (EBALR) under Section 6-p of General Municipal Law (GML) and use EBALR monies to make cash payments to employees for accrued leave time due to them upon separation from employment. GML states that interest earned on money in the EBALR must become part of reserve fund monies. School districts are not required to fund the liability for compensated absences, but they are required<sup>3</sup> to calculate this liability and to report it in their financial statements. The current, or short-term portion, of the liability for compensated absences relates to payments budgeted for employees separating in the upcoming fiscal year. The long-term portion of the liability relates to payments that will be made to separating employees in future years from future financial resources.

School district officials have a fiscal duty to taxpayers to prepare budgets that are based on reasonable and accurate assessments of resources, and to manage and report on district finances in compliance with applicable laws and standards. We found the District appropriately established and maintained its EBALR. At June 30, 2007, the EBALR had a balance of \$733,227. The District's calculations to support this balance and the approach they used were reasonable. For example, District officials included only those employees who met the age and years-of-service requirement, making them eligible for retirement during the fiscal year, in the calculation for sick leave payable. Likewise, the vacation payable amount included only amounts already accrued and payable to employees if they were to leave District service during the fiscal year. Thus, the EBALR fund balance is conservative and based on reasonable assumptions regarding possible retirements or separations from District service.

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<sup>3</sup> Governmental Accounting Standards Board (GASB) Statement No. 16, July 1994

## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

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

# South Orangetown Central School District

160 Van Wyck Road • Blauvelt, NY 10913 • (845)680-1005 • Fax (845)680-1901

Ann Vaccaro-Teich, CPA  
Deputy Superintendent  
[avt@socsd.org](mailto:avt@socsd.org)

November 23, 2008

Mr. Christopher Ellis  
Chief Examiner  
Office of the State Comptroller  
Newburgh Regional Office  
33 Airport Center Drive  
Suite 103  
New Windsor, New York 12553

Dear Mr. Ellis:

The Board of Education, Administration and the Community of the South Orangetown Central School District appreciate the work of your office in conducting the examination of Internal Controls over Selected Financial Activities for the period of July 1, 2006 through April 15, 2008.

The examination involved an assessment of internal controls in the areas of financial oversight, cash receipts, cash disbursements, purchasing, payroll and professional services. We are pleased that the examination was conducted thoroughly and, although we have sound internal controls, we believe and support the fact that there are always ways in which controls can be enhanced and strengthened to ensure that the assets of the taxpayers are properly safeguarded. We have taken the recommendations presented and either have or are in the process of instituting new protocols.

We appreciate the time taken to conduct the exit conference on November 18, 2008 with the President of the Board of Education, Superintendent of Schools, District Treasurer and myself and that this conference provided us the opportunity to offer comments and present documentation to clarify the facts in the draft report.

Below please find the District's comments and summary of its corrective action plan regarding the recommendations reflected in the draft report. As directed, the District will submit a formal corrective action plan upon receipt of the Final Report.

## **Information Technology – Recommendations #1-4**

User Rights/Segregation of Duties:

- The Director of Technology has implemented new policies related to passwords that have been adopted July 1, 2008 by the Board of Education, Policy # 6472.
- The District's budget for 2008-09 includes the addition of an Accountant I, which will enable further segregation of duties in the business office. This will eliminate the need for other staff to do transactions outside their job responsibilities.

Authorization and Notification of Changes to User Access Rights:

- The District has implemented a procedure that requires Human Resources to submit a "technology exit form" to the Technology Office to ensure that a separating employee's access to District technology resources is terminated in a timely manner.

- In addition, the District has contracted with Southern Westchester BOCES to add, delete, or change user rights in the financial software system.
- Currently, the student management system used by the District does not include the auditing and logging of changes to user accounts. We have contacted the software company and have requested that it be included in future versions of the software.

Physical Security:

- All mission critical servers (e.g. Central Office file server, email server, Financial server and Student Management server) are located in locked server rooms, remotely backed up, air conditioned and do not have any direct risks of flooding from overhead pipes.
- As part of the planning for future capital projects, the District will implement environmental monitoring systems in District server rooms.

Data Backup:

- The District implements a multi-tiered backup procedure to ensure both data backup redundancy and integrity. In particular, all mission critical servers (e.g. Central Office file server, email server, Financial server and Student Management server) have a direct attached tape backup unit (9 Tape Rotation Schedule) and are remotely backed up and stored at an off-site secured location, Southern Westchester BOCES.
- The District will amend its' current procedure to have all local backup tapes for mission critical servers stored in a fireproof safe located on district property.
- The District receives positive confirmation via email that the District's backup at night was successful.

**Overtime – Recommendations #5-8:**

It needs to be clearly stated that no employee received payment for any overtime without a timesheet appropriately signed and approved by an Administrator. No employee received a payment in error. Timesheets were used as supporting documentation to direct payment to an employee, since it was signed by the Administrator. The signature represents the administrator's assignment and verification of the overtime worked.

The District, as part of its review of its procedures, determined that the approval process should reflect separate approvals and as a result, on February 27, 2008, prior to the State Comptroller's examination, the Board of Education adopted Board Policy #6190. This policy changed the procedures to require separate approvals authorizing the work to be done and then verification that it was worked. It further requires that the Superintendent must approve any planned overtime that will exceed fifteen hours in a week.

The District is working on revising its timesheets to reflect the Board Adopted Policy. Timesheets will also include information on regular hours vs. overtime hours. The Facility Department will be required to submit, with the timesheets, documentation such as work orders and facility use permits to support the time worked. We will also be exploring the use of an electronic time keeping system.

It is important to note that in 2007-08 the District instituted an additional internal control requiring the Claims Auditor to audit all timesheets and payroll calculations to ensure that all payments are proper.

**Professional Services – Recommendations #9-10:**

The District does issue written Requests for Proposals for all licensed professionals such as architects, auditors, attorneys etc. The District's Board Policy 5421 requires "that alternative proposals or quotations for goods and services shall be secured by use of written request for proposals, written quotations, verbal quotations or any

other method of procurement which furthers the purposes of Section 104-b of General Municipal Law". The services selected by the State for testing were consultants that were Board approved, in which there is a written contract (instituted September, 2007). However, the District's purchasing regulations require that any purchase over \$3,000 should have written quotes. The District was applying that regulation to the purchase of goods and services, but not to the purchase of consultant services. Once this was brought to our attention, starting in March, 2008, we have enforced this regulation to require written competitive quotes for all consultant services over \$3,000. The Board of Education will also institute a policy that specifically requires an issuance of Request for Proposal for any consultant in excess of \$20,000.

**Employee Benefit Accrued Liability Reserve Fund:**

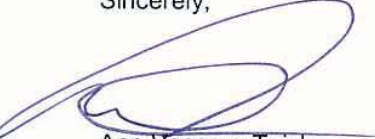
The State confirmed in our exit conference with District Officials that they believed South Orangetown Central School District's interpretation of Governmental Accounting Standards Board Statement No. 16 and its accounting is conservative and appropriate. It reflects realistically the liability of the District on June 30 of each fiscal year. The State commended us for being a good example of how this reserve should be used in accordance with the law.

The District, in an effort to reduce the taxpayers' burden, decided that where it could, it would be self-funded for expenses that were not consistent and/or not reoccurring. This is an example of that commitment. **The District does not budget for these required payouts.** If there are funds available at the end of the year, they are used to fund this liability. The liability is calculated only on the basis of what would be owed to eligible employees if the District were to close its doors on June 30. This method yields a realistic snapshot of the District's liability. It does not take into account future monies that might or might not be owed. The liability is appropriately reflected in the District-Wide Financial Statements.

During this audit examination period, the District did not have several key positions in place: a Director of Technology (position vacant from October, 2007 through April, 2008), Director of Human Resources (vacant from July 1, 2007 through June 30, 2008) and an Accountant I, which has been provided in the 2008-09 budget and has been recently filled. The District has recently filled these positions and along with the corrective action previously stated, believes proper measures are in place to avoid similar findings in the future.

The District appreciates the work and efforts of the auditors and their communication with us throughout the entire process. It enabled us to be responsive and take corrective action immediately. We believe having an outside objective review provides a perspective that allows us to continually improve and strengthen controls in order to ensure that the assets of our taxpayers are safeguarded and protected at all times.

Sincerely,



Ann Vaccaro-Teich  
Deputy Superintendent

- cc: Board of Education Members
- Dr. Ken Mitchell, Superintendent of Schools
- Audit Committee Members



Tappan Zee High School South Orangetown Middle School Cottage Lane Elementary School  
Tappan Zee Elementary School William O. Schaefer Elementary School Early Childhood Program

## **APPENDIX B**

### **OSC COMMENT ON THE DISTRICT'S RESPONSE**

Note 1

We amended our finding regarding Board approval of consultant agreements based on information provided at the exit conference.

## 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. We then decided upon the reported objectives and scope by selecting for audit those areas most at risk. We selected information technology, overtime and professional services, and Employee Benefit Accrued Liability Reserve for further audit testing. Our procedures for IT, overtime, and professional services included the following:

- Review of Board minutes and policy manual
- Review of collective bargaining agreements and individual employee contracts
- Examination of payroll warrants
- Review of time cards
- Review of computer access rights
- Review of financial records such as financial statements, accounting records, and overtime reports from July 1, 2006 to April 15, 2008
- Examination of cash disbursement warrants for general fund
- Review of vendor payment packets
- Examination of personnel files
- Audit trail reports for employees whose user rights were terminated.

The tests for the establishment and appropriate maintenance of the employee benefit accrued liability reserve fund included:

- Obtaining a copy of the Board resolution establishing the reserve
- Determining whether the District accrues interest on the reserved funds to the reserve
- Obtaining supporting documentation used by the district to determine the level at which to fund the reserve.

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 D

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