



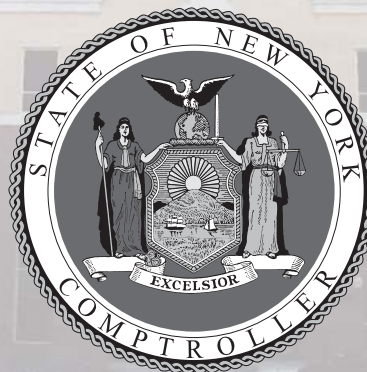
Spackenkill Union Free School District Internal Controls Over Selected Financial Activities

Report of Examination

Period Covered:

July 1, 2006 — December 10, 2007

2008M-194



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

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 Spackenkill Union Free 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

EXECUTIVE SUMMARY

The Spackenkill 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.

There are four schools in operation within the District, with approximately 1,800 students and 500 employees. The District's revised budgeted expenditures for the 2006-07 fiscal year were approximately \$31.9 million, which were funded primarily with State aid, real property taxes, and grants.

Scope and Objective

The objective of our audit was to determine the adequacy of the District's internal controls over cash disbursements, purchasing, and information technology for the period July 1, 2006 through December 10, 2007. Our audit addressed the following related questions:

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

Audit Results

The District's internal controls over cash disbursements were not sufficient to safeguard District assets. The District did not properly segregate claims auditing duties because the deputy claims auditor is also the secretary to the Assistant Superintendent for Business, and is therefore performing incompatible duties. We also found that the Board, rather than the claims auditors, was auditing capital fund claims, which is not in compliance with the law. Also, because the Board did not communicate its expectations to the claim auditors, we found the District's claims auditing process to be inadequate. Claims were paid without appropriate supporting documentation, and some purchases were made without prior approval. In addition, the Treasurer did not maintain control of her facsimile signature, which increases the risk that cash disbursements could be made for non-District purposes and not be detected. The District also made separation payments to two employees that exceeded the amounts allowed by their

contracts by \$17,839. Additionally, we found several budget transfers that should have been approved by the Superintendent were inappropriately approved by the former Superintendent for Business. When an unauthorized person makes budget transfers, the risk is increased that appropriations could be exceeded and not be detected.

We also found that the Board has adopted policies and procedures which provide reasonable assurance that purchases are prudent, economical and in compliance with laws and regulations. However, we found an instance where an improvement can be made in these procedures. The District could save taxpayers approximately \$30,000 per year in check printing costs by printing checks in-house. For fiscal year 2006-07, the District had 2,605 general fund checks printed at the Mid-Hudson Regional Information Center at a cost of \$3.58 per check, and 8,950 payroll checks at a cost of \$2.08 per check for a total cost of \$27,942. The costs per check increase annually, and assuming the same number of checks will be issued for the upcoming year, the projected cost for the 2008-09 fiscal year would be over \$31,000. Our calculations show that, if the District were to print its own checks, doing so would reduce the cost to approximately \$.13 per check, for a total annual cost of \$1,502. This would result in an approximate taxpayer savings of \$30,000 for the 2008-09 fiscal year.

Finally, we found that the District did not securely store its backed-up data files and did not have a formal disaster recovery plan for its information technology. The District also did not have policies or procedures controlling remote access to the District's network. As a result, the District's computerized data may subject to increased risk of loss or misuse.

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 indicated in Appendix A, District officials generally agreed with our recommendations and indicated they plan to initiate corrective action. Appendix B contains our comments on issues raised in the District's response letter.

Introduction

Background

The Spackenkill Union Free School District (District) is located in the Town of Poughkeepsie, Dutchess 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 four schools in operation within the District, with approximately 1,800 students and 500 employees. The District's revised budgeted expenditures for the 2006-07 fiscal year were approximately \$31.9 million, which were funded primarily with State aid, real property taxes, and grants.

The Treasurer is responsible for disbursing all District funds based upon proper authorization. The Board has appointed a claims auditor, and a deputy claims auditor to act in the absence of the claims auditor, who are charged with auditing and approving all of the District's claims.

The Board is responsible for designing internal controls to ensure the prudent and economical use of District moneys when procuring goods and services. The District contracts with the Mid-Hudson Regional Information Center to provide check-printing services.

Objective

The objective of our audit was to determine if internal controls are appropriately designed and operating effectively for selected financial activities. Our audit addressed the following related questions:

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

Scope and Methodology

We examined internal controls over cash disbursements, purchasing, and information technology of the Spackenkill Union Free School District for the period July 1, 2006 to December 10, 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 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 indicated in Appendix A, District officials generally agreed with our recommendations and indicated they plan to initiate corrective action. Appendix B contains our comments on issues 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.

Cash Disbursements

In general, the objectives of internal controls over cash disbursements are to ensure that cash is disbursed only upon proper authorization, when supported by the appropriate documentation, for valid business purposes. Authorizations to disburse funds may come from, among other things, certified warrants of audited and approved claims and certified payrolls. A listing of audited and approved claims, certified by the claims auditor, authorizes the Treasurer to disburse District funds as directed. Similarly, a payroll certified by the Superintendent authorizes the Treasurer to disburse funds for employee wages, salaries and benefits. To provide additional control, expenditures may not be made unless sufficient budgetary appropriations are available. The Treasurer is responsible for signing all checks disbursing District funds. If a facsimile signature is used to sign checks, the Treasurer must maintain control over it. District officials must ensure that all payroll payments, including separation payments, are made in accordance with employment contracts. The Board is responsible for monitoring District expenditures to ensure they stay within total annual appropriations. When internal controls are not designed appropriately or operating effectively, it increases the risk that errors and irregularities may occur and not be detected and corrected.

We found weaknesses in internal controls over cash disbursements. Because the Board did not communicate its expectations to the claims auditor and deputy claims auditor, the District's claims audit process is deficient and applied inconsistently. Because the Treasurer did not control her facsimile signature, her signature was affixed to District accounts payable and payroll checks without her involvement. Because District officials did not design appropriate controls over the payroll process, separation payments were made to two employees in excess of the amounts allowed by each individual's contract. Also, budget transfers were made by the Assistant Superintendent for Business rather than the Superintendent, as designated by the Board. When unauthorized budget transfers are made, the risk is increased that appropriations could be exceeded and not be detected. As a result of these control weaknesses, there is an increased risk that erroneous or inappropriate disbursements could be made and not be detected, and District funds could be spent inappropriately.

Claims Audit Process

The claims audit process is a critical element of the District's internal control system over non-payroll cash disbursements. Education Law requires the Board to audit the District's claims prior to payment. The Board may appoint a claims auditor to perform this important function on the Board's behalf. If the Board chooses to appoint a

claims auditor, the Board may no longer approve claims for payment until the position of claims auditor is abolished. The claims auditor should not perform any other accounting functions within the District, and should report directly to the Board. The claims auditor should ensure that purchases are supported by proper documentation, including invoices, and written verification that the goods or services have been received. The claims auditor is responsible for ensuring that claims generated from purchases are legitimate District expenses prior to authorizing the payment of claims.

The Board authorized two individuals, a claims auditor and deputy claims auditor, to audit and approve District claims. The claims auditor only works a few days a month, and the deputy claims auditor is charged with auditing claims that cannot wait until the claims auditor is available. The deputy informed us that she audits all cafeteria fund claims and most manual check claims. The deputy claims auditor is also the secretary to the Assistant Superintendent of Business. However, the claims audit function should be completely independent from the Business Office function. The secretary to the Assistant Superintendent/deputy claims auditor's duties are incompatible because she may be in a position to audit and approve a transaction that she initiated in the Business Office or transactions that were initiated at her supervisor's direction. This lack of segregation of duties increases the risk that errors or irregularities could occur and go undetected.

The claims auditors did not perform an adequate audit of the District's claims. The accounts payable clerk attaches the purchase order or claim form to the invoices, packing slips, etc. and assembles the claim packet. Copies of the unsigned checks are attached to the claim packets and given to the claims auditors. The claims auditors basically just check the accounts payable clerk's work. They do not determine whether payments are appropriate, correct, and sufficiently supported. According to both claims auditors, the Board never communicated to them what was expected of the claims audit.

Furthermore, the Board performed the audit of the capital fund claims. Education Law prohibits the Board from auditing claims once it has designated the claims audit function to a claims auditor. In addition, the Board's audit of the capital fund claims was deficient because Board members reviewed only the schedule of claims prepared by the District Clerk. According to the District Clerk, Board members do not receive the claim packets containing necessary supporting documentation. These packets typically include requisitions, purchase orders, reimbursement claim forms, vendor invoices, packing slips, etc. Board members only see the schedule of claims. Without sufficient

information, such as complete claims packets, it is impossible to perform an effective audit of claims.

Because of these weaknesses, we examined 10 capital fund disbursements totaling \$1.39 million and found that all 10 claims were improperly signed by the District Clerk instead of the claims auditor. In addition, Board members, who had inappropriately audited the capital fund claims, did not sign these claims indicating their approval for payment. We also found that the Board did not document its approval of four of these disbursements totaling \$308,960 in the meeting minutes. Therefore, these disbursements were not communicated to the public.

We also reviewed 24 canceled checks totaling \$65,141 and their corresponding claim packets to determine if all checks matched the amount and payee on the warrant or schedule of claims, were properly audited prior to payment, and were properly itemized District expenditures. We found that the District's claims auditing process was inadequate. We identified exceptions totaling \$9,411 for the claims we reviewed. Some claims had more than one discrepancy. Examples of the problems we found include the following:

- Six purchase orders were dated after the invoice/receipt date
- Three claims did not have purchase orders attached
- One invoice was overpaid by \$19
- One claim packet did not have an invoice attached
- Seven claims totaling \$5,817 lacked documentation to show they were valid District disbursements. For example, the District paid \$2,430 in February 2007 for food and beverages that were provided at various meetings and conferences. The District did not have supporting documentation to indicate that these were necessary District expenses.
- Ten payments could not be traced to the warrant of audited and approved claims. Therefore, there was no evidence that these claims were audited prior to payment.

The Treasurer personally signs the District's manual checks (checks that are manually entered into the District's computer system), as well as all cafeteria fund checks. We tested 23 claims totaling \$130,000 that were paid with manual checks to determine if all checks matched the amount and payee on the warrant or schedule of claims, were

properly audited prior to payment, and were properly itemized District expenditures. We found the District's claims audit of manual checks to be inadequate. We identified exceptions in these claims totaling \$16,928:

- Two claims did not appear on a warrant or schedule of claims. Therefore, there was no evidence that these claims were audited prior to payment.
- One claim did not have sufficient supporting documentation attached
- One claim had a purchase order that was not signed by the purchasing agent
- The invoices pre-dated the purchase order and the claims auditor approved the claim prior to the purchase order date for two claims
- The Superintendent approved two disbursements totaling \$3,671, which exceeded her approval authority (The Superintendent is authorized to approve payments of up to \$500 in emergencies, per occurrence, but neither disbursement was an emergency purchase)
- Five claims had signatures on the warrants that were not dated
- Two claims had the claims auditor's signature dated after the date of the check.

Because the Board has not properly instructed the claims auditors on the expectation of a proper audit of claims, the District's claims audit process is inadequate. Unless the District provides for a thorough audit of claims, performed by an independent Board-appointed claims auditor, there is risk that the District could make inaccurate payments or pay for inappropriate purchases.

Treasurer's Check-Signing Process

As the District official responsible for signing checks, the Treasurer plays a critical role in the cash disbursement process. The Treasurer must ensure that her signature is not used to make payments that have not been authorized. The Treasurer's actual or facsimile signature must be affixed to District checks by the Treasurer or affixed under the Treasurer's direct supervision. Unless a statutory exception applies, the Treasurer must sign checks only after receiving a warrant certified by the claims auditor directing her to pay the related claims or after

receiving a payroll register certified by the approving officer. It is important for the Treasurer to then compare the signed checks with the warrant or payroll to ensure that the amounts and check information are accurate and consistent and to account for the completeness of the check number sequences.

District general fund accounts payable checks and payroll checks (and the corresponding warrant and payroll register) are prepared at the District and printed at the Mid-Hudson Regional Information Center (MHRIC). The printed checks are then couriered, unsigned, to the District. Once the claims auditor approves the warrants, the accounts payable clerk affixes the Treasurer's signature to the checks by running them through the check-signing machine. The clerk then mails the checks. The payroll check-signing process is similar; either the payroll clerk or the personnel assistant affixes the Treasurer's signature to the checks after the Superintendent approves the payroll. The payroll checks are placed in the safe until a District courier distributes them to the employees. The Treasurer is not involved in either of these processes despite the fact that her signature is affixed to the checks. She does not control or supervise the use of her facsimile signature. Since the accounts payable and the payroll clerks have the ability to enter checks to be printed by the MHRIC, and also have the ability to affix the Treasurer's signature to the checks without the Treasurer's involvement, there is an increased risk that an improper check could be issued and not detected.

Separation Payments

School districts establish the pay and benefits for professional employees and support staff in the written labor agreements they negotiate with bargaining units and certain individual employees' contracts. School boards may also elect to supplement the terms of the labor agreements with written policies. Employment contracts, agreements, and policies should contain clear and unambiguous language to allow proper interpretation of their terms and conditions. The documentation and proper implementation of a district's labor contracts are essential aspects of internal controls.

Separation payment calculations are unusual, highly complex payroll transactions that are susceptible to errors. We tested five employees who left the District during the audit period and found that the District overpaid two former employees for accrued vacation leave they were not entitled to in their contracts totaling 58 days and \$17,839, as outlined below:

- A former Athletic Director was paid for 95 days of accumulated vacation upon separation, although his contract limited this payment to 80 days, resulting in an overpayment of \$6,147.

- A former Director of Facilities was paid for 48 accumulated vacation days, although his contract limited his separation payment to 5 days. This resulted in an overpayment of \$11,692.

The failure to ensure that separation payments are made accurately can, and did, result in excessive payments being made.

Budget Transfer Approvals

Budgetary appropriations, approved and modified by the governing board, can provide effective control over expenditures if properly monitored. The Board is responsible for monitoring District expenditures to ensure they stay within total annual appropriations. The Commissioner of Education's Regulations allow the Board to authorize the Superintendent to make budget transfers between line item accounts within set limits without Board approval.

The Board authorized the Superintendent to approve budget transfers of up to \$10,000 for both the 2006-07 and the 2007-08 fiscal years. We tested 12 budget transfers that were executed by the Treasurer, totaling \$239,200, to determine whether they were properly authorized. Seven of these budget transfers, totaling \$32,700, which should have been approved by the Superintendent, were approved by the former Assistant Superintendent for Business. The five other transfers appear to be approved by the Board, but were not appropriately documented in the Board minutes. The minutes indicate approval of budget transfers but do not specify amounts or any other specific account information. District officials stated that budget transfers had always been done this way.

The effect of unauthorized budget transfers means that District officials are not in compliance with Board directives, and also increases the potential that Board-authorized appropriations could be exceeded and go undetected. When we brought this to District officials' attention, the current Assistant Superintendent for Business immediately issued a memo directing the Treasurer to no longer execute budget transfers without the Superintendent's approval.

Recommendations

1. District officials should re-assign the deputy claims auditor position to someone who is not involved in any accounting function in the District and who does not report to a District business official. The deputy claims auditor should only audit claims in the absence of the claims auditor.
2. The Board should provide the claims auditors with a written job description and ensure that the claims auditors understand the claims process. The Board should also ensure that an adequate,

thorough audit of claims is being performed before payment is made, and that all audited claims appear on a warrant signed by a claims auditor.

3. District officials should ensure that all purchase orders are completed, approved and signed by the appropriate District official before purchases are made.
4. District officials should ensure that all claims are accurate, correct and adequately documented, and that all claims have a clear indication of the business purpose of the expenditure.
5. The Treasurer should maintain control over her facsimile signature by signing all checks or directly overseeing checks being signed.
6. The Treasurer should compare the signed checks to the approved warrants and the certified payrolls.
7. District officials should ensure that all labor contracts are adhered to when making future separation payments.
8. The Board should review the overpayments made to the two former employees for vacation leave and recover moneys, as appropriate.
9. The Board should ensure that all budget transfers under \$10,000 are approved by the Superintendent, as required by current policy.

Purchasing

The objectives of a procurement process are to obtain goods and services, materials, supplies, or equipment of desired quality, in the specified quantity, at the lowest price and in compliance with applicable Board and legal requirements. This helps ensure that taxpayer dollars are expended in the most efficient manner. The Board must adopt policies and procedures to provide reasonable assurance that assets are properly safeguarded from loss, waste or misuse.

District officials are responsible for ensuring that the District receives maximum value for taxpayer dollars when procuring goods or services. Therefore, established policies and procedures for the procurement of goods and services should include routine price comparisons and periodic analysis. Analyzing the costs of goods and services allows District officials to make informed procurement decisions in the best interests of the taxpayers. The Board has adopted policies and procedures, which provide reasonable assurance that assets were properly safeguarded and purchases were prudent, economical and in compliance with laws and regulations. However, we noted an instance where an improvement can be made in these procedures to ensure that the District procures goods and services in the most cost-efficient manner.

The District currently uses the services of the Mid-Hudson Regional Information Center (MHRIC) to print its checks. For fiscal year 2006-07, the District printed 2,605 general fund checks at a cost of \$3.58 per check, and 8,950 payroll checks at a cost of \$2.08 per check, for a total cost of \$27,942. The costs per check increase annually, and assuming the same number of checks will be issued for the upcoming year, the projected cost for the 2008-09 fiscal year will be over \$31,000. Our calculations (including ink, check stock, and a dedicated printer with a 4 year useful life) show that, if the District were to print its own checks, doing so would reduce the cost to approximately \$.13 per check, for a total annual operating cost of \$1,502, which could result in an annual savings of up to \$30,000.

In addition, outsourcing the check printing causes additional work for District staff, as many checks must be manually issued and approved between check runs. This could be part of the reason for the multiple deficiencies found in our test of 23 manual checks. Further, since these checks must be manually entered into the accounting system, there is an increased risk that errors and/or irregularities could occur when the data is entered into the accounting system.

Recommendations

10. District officials should improve their purchasing procedures by periodically performing an analysis of goods or services they procure.
11. The District should consider performing the check printing function in-house.

Information Technology

District officials are responsible for developing a system of internal controls that incorporates policies and procedures to safeguard computerized data and assets. Computerized data is a valuable District resource. District officials rely on computerized data for a variety of purposes including accounting for District assets, providing information for financial decision purposes, and for reporting to State and Federal agencies. If the equipment on which this data is stored fails or the data is lost or altered either intentionally or unintentionally, the results could range from inconvenient to catastrophic. Even small disruptions in electronic data systems can require extensive effort to evaluate and repair.

We identified weaknesses in the District's internal controls over information technology. The District did not securely store its backed-up data files and did not have a formal disaster recovery plan for its information technology. There were also no policies or procedures controlling remote access to the District's network. As a result, the District's computerized data may be subject to increased risk of loss or misuse.

Data Backup — A basic internal control for information technology (IT) is to protect data by backing up files regularly. Even the most reliable IT equipment can break down or malfunction. Data stored on computers and servers should be backed up (i.e., a duplicate copy of information made) routinely to enable restoration in the event of loss. It is advisable to store back-up copies at a secure off-site location. While the District performs nightly backups, the back-up tapes are not stored off-site. A disaster caused by fire or water could damage not only the computer equipment, but also the tapes containing back-up data. This could result in a loss of essential information which may not be recoverable.

Disaster Recovery — A formal disaster recovery plan¹ should be established to provide guidance on the loss-prevention and recovery of computerized data in the event of a disaster. The plan should address the roles of key individuals and include precautions to be taken to minimize the effects of a disaster so District officials will be able either to maintain or quickly resume mission-critical functions. The plan should also include significant focus on disaster prevention. The District does not have a comprehensive Disaster Recovery

¹ For this report, a disaster is defined as a sudden, unplanned catastrophic event that compromises the integrity and the data of the IT systems. This could include fire, flood, a computer virus, vandalism, or inadvertent employee action.

Plan to prevent loss of computer equipment and data as well as the procedures for recovery in the event of an actual loss. As a result, District personnel have no guidelines or plan to follow to prevent the loss of equipment and data or to appropriately recover data. The lack of a disaster recovery plan could lead to the loss of important financial data along with a serious interruption to District operations, such as not being able to process checks to pay vendors or employees.

Remote Access — Remote access is the ability to log on to a network from off-site locations. Generally, this involves a computer, a modem or internet access, and remote access software. Remote access can cause security risks for an otherwise secure network because remote computers, even if physically secure, may be vulnerable to attacks from other systems. Policy directives, training, and due diligence are all key to secure remote access. The District provides remote access to business staff and to an outside vendor. However, District officials have not established and implemented policies and procedures that govern remote access to ensure that remote access systems are secure and that all parties who are capable of remote access are authorized users. Allowing remote access capability requires vigilant monitoring to preserve the integrity of District systems and data. If remote access is not monitored, the District's computerized data could be at risk of loss or misuse.

Recommendations

12. District officials should develop data back-up policies and procedures and ensure that nightly back-ups are stored in a secure, off-site location.
13. District officials should implement a formal disaster recovery plan.
14. District officials should determine periodically whether the benefits of remote access outweigh the security risks and develop policies and procedures as appropriate.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



Spackenkill Union Free School District

DISTRICT OFFICE

LOIS COLLETTA, ED.D.
Superintendent of Schools

KEVIN GEOGHAN
Assistant Superintendent

Office of State Comptroller
Division of Local Government & School Accountability
PSU – CAP Submission
110 State Street, 12th Floor
Albany NY 12236

Response to the Draft Report of Examination
Office of the State Comptroller
Division of Local Government and
School Accountability.

August 8, 2009

Dear Sirs:

At the direction of the Board of Education of the Spackenkill Union Free School District I respectfully submit this response to the findings and recommendations contained in the draft Report of Examination of the Spackenkill Union Free School District: Internal Controls Over Selected Financial Activities for the period of July 1, 2006 through December 10, 2007.

The District's commitment to excellence in every aspect of its operation makes it pleased to receive recommendations for improving controls over financial activities. In many instances, actions have been taken to begin the improvement process, and others are planned that will fully address all recommendations contained in the report.

The following Corrective Action Plan indicates District responses to audit recommendations.

Recommendation 1: District officials should re-assign the deputy claims auditor position to someone who is not involved in any accounting function in the District and who does not report to a District business official. The deputy claims auditor should only audit claims in the absence of the claims auditor.

Management Comment: The District is in full agreement with this recommendation.

Corrective action: Re-assign the deputy claims auditor position.

Person(s) responsible: Board of Education

Status/Timing: Completed.

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POUGHKEEPSIE
NEW YORK 12603
845-463-7800
FAX: 845-463-7804

Recommendation 2: The Board should provide the claims auditors with a written job description and ensure that the claims auditors understand the claims process. The Board should also ensure that an adequate, thorough audit of claims is being performed before payment is made, and that all audited claims appear on a warrant signed by a claims auditor.

Corrective Action: Formulate a written job description for the Claims Auditor

Person Responsible: School Business Official

Status/Timing: Completed

Corrective Action: Provide training for the Claims Auditor

Person Responsible: School Business Official and business service organizations like ASBO

Status/Timing: Initial training is to take place by 1/1/09 to impart an understanding of the claims audit process. Additional training through workshops provided by outside organizations is to take place on a periodic/ongoing basis.

Corrective Action: Develop a check-off list of aspects of claims to be checked by the Claims Auditor when auditing claims to ensure the audit is complete, and develop a report form for periodically reporting the results of audits directly to the Board of Education

Person Responsible: School Business Official

Status/Timing: The check-off list is to be developed and reviewed as part of training that will take place by 1/1/09. The report form is to be presented for Board approval at its January 2009 meeting.

Corrective Action: Re-assign the Claims Audit function to a full-time employee with no other responsibilities for financial functions

Management Comment: Immediate action has been taken in the re-assignment of the deputy claims audit function to an employee with no other responsibilities for financial functions. The District is also reviewing all aspects of its business office functions and expects to re-configure duties and responsibilities in several positions, including Claims Auditor.

Person(s) Responsible: Board of Education

Status/Timing: The initial re-assignment has taken place. Additional changes in staff assignments in the business office are expected to be proposed for the start of the 2009-10 school year.

Corrective Action: Direct the Treasurer to eliminate the practice of authorizing payments that are not noted on warrants.

Person Responsible: School Business Official and Treasurer

Status/Timing: Completed

Recommendation 3: District officials should ensure that all purchase orders are completed, approved and signed by the appropriate District official before purchases are made.

Corrective Action: Instruct employees involved in the purchasing process to the requirement that purchases cannot be made without a purchase order. Monitor compliance, and repeat training as necessary.

Person Responsible: Purchasing Agent and all involved in the purchasing process.

Status/Timing: All individuals involved in the purchasing process have been informed of the requirement to complete purchase orders before purchases are made. Some payments for purchases have been denied when they are not accompanied by a properly completed purchase order. The requirement is being incorporated into a new purchasing manual scheduled for completion by the end of this school year.

Recommendation 4: District officials should ensure that all claims are accurate, correct and adequately documented, and that all claims have a clear indication of the business purpose of the expenditure.

Management Response: The above-mentioned corrective actions should be sufficient to ensure appropriate purchases and claims.

Corrective Action: No additional actions are expected to be necessary.

Recommendation 5: The Treasurer should maintain control over her facsimile signature by signing all checks or directly overseeing checks being signed.

Corrective action: Direct the Treasurer to directly oversee checks being signed.

Person Responsible: School Business Official and Treasurer.

Status/Timing: Completed

Recommendation 6: The Treasurer should compare the signed checks to the approved warrants and the certified payrolls.

Corrective action: The Treasurer shall be directed to compare the signed checks to approved warrants and certified payrolls and develop a system for documenting compliance with this direction.

Person Responsible: School Business Official and Treasurer

Status/Timing: Completed

Recommendation 7: District officials should ensure that all labor contracts are adhered to when making future separation payments.

Corrective Action: The payroll clerk shall be directed to secure pre-approval for all future separation payments from the Superintendent of Schools.

Person Responsible: School Business Official

Status/Timing: Completed

Recommendation 8: The Board should review the overpayments made to the two former employees for vacation leave and recover monies, as appropriate.

Management Response: While payments made to the two individuals mentioned in the report were out of compliance with the written letter of each

person's contract, the District's practice of paying for vacation time upon separation from service to the District is a long-standing practice. In each case, these employees worked on days that they otherwise could have opted to not work, and would have been paid. As the date of retirement approached, each employee could have deferred the effective date of retirement by the number of vacation days they had accumulated, and could have taken these additional days as vacation days. If they had, they would have been paid their regular salary during this period, and the payments would have been in compliance with the terms of their contract. There is no difference in terms of cost to taxpayers whether the paid vacation days were paid in a lump sum or over a period of several vacation weeks that had accumulated.

Corrective Action: When lump sum payments for vacation days or other compensation that is not literally required by an employee's contract is being considered, the Board of Education shall review and approve or deny such payments.

Person Responsible: Superintendent of Schools

Status/Timing: As of the date of this writing and ongoing

Recommendation 9: The Board should ensure that all budget transfers under \$10,000 are approved by the Superintendent, as required by current policy.

Corrective Action: The Treasurer shall be instructed to carry-out a budget transfer only upon receipt of a budget transfer approval form signed by the Superintendent of Schools

Person Responsible: Treasurer

Status/Timing: Completed, and ongoing

Recommendation 10: District officials should improve their purchasing procedures by periodically performing price comparisons and analysis of goods or services they procure.

Management response: The District's purchasing policies and practices require price comparisons to be carried out as a routine aspect of purchasing. The cost analysis described in the report, that presumably led to the writing of this recommendation, appears deficient in many respects, including but not limited to, the costs of staff training, software licenses, back-up services, disaster recovery services, and other aspects of the "check-printing" service purchased from BOCES. The cost analysis also apparently fails to take into account the method by which the purchase of services by school districts from BOCES is overtly encouraged by the Governor, Legislature, and New York State Education Department in the form of "BOCES AID." BOCES aid paid to school districts is a critical part of the State's budget, approved by the Governor and Legislature, and provided to districts to purchase services like the check-printing service mentioned in the report. If the District ceased to purchase check printing services from BOCES, it would lose the financial incentives provided by the state to do so. These incentives are not part of the cost analysis that appears in the report.

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With respect to performing periodic analysis of goods or services purchased by the District, the District actively seeks new, less-expensive ways to conduct its business. For instance, the District is hosting a meeting of other areas school districts and their transportation supervisors to discuss ways to cooperate in providing transportation to the private and parochial schools to which we all transport schools. This is just one example. Meetings of business officials occur monthly and discussions on investment strategies, health insurance, workers compensation, energy, and other major areas of expenditures are a regular topic of these discussions.

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Note 1
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Corrective Action: The District will continue to regularly and actively seek ways to cut costs.

Person Responsible: Assistant Superintendent for Business and individuals involved in the District.

Status/Timing: Ongoing

Recommendation 11: The District should consider performing the check printing function in-house.

Management Response: The District is considering a re-structuring of its office personnel. It is also sensitive to the near-retirement status of key business office staff. Changes in systems and processes are being considered in conjunction with an overall review of business office staffing.

Corrective Action: The District will consider performing check-printing functions in house.

Person Responsible: Assistant Superintendent for Business

Status/Timing: In conjunction with the re-organization of the business office.

Recommendation 12: District officials should develop data backup policies and procedures and ensure that nightly backups are stored in a secure, off-site location.

Management Response: Comments in the report leading to this recommendation appear to understate or misrepresent the level of security provided for “essential” data and data processes. While the report acknowledges that nightly backups are performed, it also states that back-up tapes are not stored off-site. The lack of off-site storage applies only for non-essential data files like those involving e-mail, calendar, and unofficial data. The District agrees with the report’s conclusion that backup tapes for these files should be stored off-site and has begun making arrangements for this to happen.

With respect to the District’s “essential” financial records, payroll records, and student information records and data processing involving this data, the District contracts with BOCES, in addition to its check-printing service, to provide back-up and disaster recovery. The District has reviewed the BOCES disaster recovery plan and finds it provides a significant level of protection. Backups are performed regularly and stored off-site. In addition, in times of emergency or disaster, the District can literally conduct mission critical functions at BOCES or from any secure internet access location. The District believes the distinction between non-essential and essential data and functions to be significant, and the report’s failure to draw the distinction cause for

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Note 2
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questioning the validity of the report's conclusion that the lack of backup storage could result in the loss of essential information.

Corrective Action: The District will document its current backup policies and procedures and ensure that back-up files are stored in off-site locations.

Person Responsible: Technology staff

Status/Timing: By 4/1/09.

Recommendation 13: District officials should implement a formal disaster recovery plan.

Management Response: Mission critical functions are performed off-site through a BOCES service. The District has reviewed the BOCES disaster recovery plan and finds it provides sufficient security to prevent loss. The plan covers all elements mentioned as necessary in the audit report. As a result, the District has the ability to either maintain or quickly resume mission-critical functions and statements in the audit report to the contrary are factually inaccurate. The District also disagrees with the audit report's conclusion that because there is no written disaster recover plan that District personnel have no guidelines or plan to follow to prevent the loss of data or to appropriately recover data. This is simply not the case. The District's IT personnel are fully aware of processes and systems required to perform this function. They would all have to be incapacitated for the District to be at risk. The report further overstates the risk in concluding that the lack of a disaster recovery plan could lead to serious interruption to District operations. It ironically mentions an inability to process checks to pay vendors or employees as the specific functionality that would be lost. The District would only risk such a loss if it brought its check printing function in-house, as recommended by the report. Check printing is mentioned in response to Recommendation #11.

Corrective action: Implement a formal disaster recovery plan.

Person responsible: Technology staff

Status/Timing: Formulate the plan for Board approval by March 1, 2009 and implement.

See
Note 3
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Sincerely,



Kevin Geoghan
Assistant Superintendent for Business

APPENDIX B

OSC COMMENTS ON THE DISTRICT'S RESPONSE

Note 1

Our analysis focused on the reduced operating costs associated with performing the check printing operation in-house. While there may be some incidental start-up costs incurred by the District with the conversion to in-house check printing, these costs would be recovered in a short period of time through the savings realized with each check printed. Over several years these savings could be considerable.

While any State aid received to offset a portion of the costs incurred by the District does affect the bottom line, it is not prudent to incur unnecessary costs just because some of those costs can be passed along to State taxpayers.

We have noted in our report that the District has adopted policies and procedures which provide reasonable assurance that assets are properly safeguarded and purchases are prudent, economical and in compliance with laws and regulations. We have amended the recommendation to help clarify this.

Note 2

If the District is backing up information to tapes each night, it is assumed that the information has some value to the District. For that reason, the back up tapes should be stored in a secure location.

Note 3

All of the District's mission-critical functions are not performed off-site. Essential data-processing functions are performed each day by District personnel at District offices. Daily business transactions such as receiving cash, investing, purchasing, claims processing and payroll processing occur at the District. Source documents generated by these activities such as Board resolutions, contracts, purchase orders, vendor claims, and time records are reviewed, stored and processed by District personnel on-site. The critical components of these documents are entered into the IT system at the District. Much of the electronic information is initially stored on servers located within the District's buildings. Original copies of contracts, Board authorizations, payroll/personnel records and other key documents are stored at the District. A comprehensive disaster recovery plan should assess the risks to all elements of the District's business (and other mission-critical) operations. Identified risks should then be mitigated through a combination of prevention and restoration procedures. These procedures should then be communicated to all employees who are involved in these critical functions.

As indicated above, there are several critical steps required to process vendor and employee checks prior to the printing of those checks. The vast majority of these necessary steps are performed by District personnel on-site. If these steps could not be effectively performed, the resulting checks could not be printed regardless of where the printers are located. An effective disaster recovery plan would recognize this and plan accordingly.

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, payroll and personal services and information technology.

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 cash disbursements, purchasing and information technology for further audit testing. To accomplish our audit objective and obtain valid evidence, we reviewed:

- Administrator and employee contracts, separation payments, time and attendance records, personnel files, and Board minutes
- Cash disbursement records, paid claims, warrants, bank statements, and canceled checks
- Competitive bidding laws, bid and quote files, and minutes of the Board and District policies for the period July 1, 2006 through December 10, 2007
- District policies for computer use and information technology. In addition, we interviewed District officials concerning user access, facsimile signatures, audit logs, backups of data, and disaster recovery plans. We also physically inspected the locations of system equipment.

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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