



Union Free School District of the Tarrytowns Internal Controls Over Selected Financial Operations

Report of Examination

Period Covered:

July 1, 2006 — November 30, 2007

2008M-117



Thomas P. DiNapoli

Table of Contents

	Page
AUTHORITY LETTER	3
EXECUTIVE SUMMARY	5
INTRODUCTION	7
Background	7
Objective	7
Scope and Methodology	8
Comments of District Officials and Corrective Action	8
PURCHASING	9
Competitive Bidding	9
Professional Services	10
Quotations	11
Claims Auditing	11
Recommendations	12
SEGREGATION OF DUTIES	14
Payroll	14
Cash Management	15
Recommendations	16
COMPUTER EQUIPMENT	17
Recommendations	17

Table of Contents

	Page
INFORMATION TECHNOLOGY	19
Audit Logs	19
User Access and Passwords	20
Disaster Recovery	21
Recommendations	22
APPENDIX A Response From District Officials	23
APPENDIX B OSC Comments On The District's Response	27
APPENDIX C Audit Methodology And Standards	28
APPENDIX D How To Obtain Additional Copies of the Report	30
APPENDIX E Local Regional Office Listing	31

State of New York Office of the State Comptroller

Division of Local Government and School Accountability

August 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 Union Free School District of the Tarrytowns, entitled Internal Controls Over Selected Financial Operations. This audit was conducted pursuant to Article V, Section 1 of the State Constitution, and the State Comptroller's authority as set forth in Article 3 of the General Municipal Law.

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

Respectfully submitted,

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



State of New York Office of the State Comptroller

EXECUTIVE SUMMARY

The Union Free School District of the Tarrytowns (District) is governed by the Board of Education (Board) which comprises seven elected members. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools (Superintendent) is the chief executive officer of the District and is responsible, along with other administrative staff, for the day-to-day management of the District under the direction of the Board. The Business Manager, who is also the District's purchasing agent, and the Treasurer, who is also the District's payroll clerk, manage the District's finances, accounting records and reports. The Board has appointed a claims auditor who assumes the Board's powers and duties of approving or denying claims against the District.

There are six schools in operation within the District, with a student enrollment of 2,566 and 483 employees. The District's budgeted expenditures for the 2007-08 fiscal year are \$55.6 million, which are funded primarily with real property taxes, State aid and grants.

Scope and Objective

The objective of our audit was to determine if the District had established effective internal controls over purchasing, Business Office operations, computer equipment, and information technology for the period July 1, 2006 to November 30, 2007. Our audit addressed the following related questions:

- Has the District established adequate internal controls over purchasing to ensure that District assets are properly safeguarded?
- Has the District adequately segregated duties within the Business Office?
- Are internal controls over computer equipment designed and operating effectively to adequately safeguard District assets?
- Are internal controls over the District's information technology system appropriately designed to protect electronic data?

Audit Results

The District's internal controls over purchasing, Business Office operations, computer equipment and information technology were not appropriately designed and operating effectively. As a result, District assets were not properly safeguarded.

The District has not established adequate internal controls over purchasing to ensure that District assets are properly safeguarded. The District did not always follow General Municipal Law or the District's adopted purchasing policy when purchasing goods and services. During fiscal year 2006-07, the District did not request bids for 11 purchases and public work contracts totaling \$435,820 that were subject to competitive bidding requirements. In addition, the District did not request competitive proposals to retain the services of nine professional service providers totaling \$811,793. Further, although the District's procurement policy requires employees to obtain quotes for purchases or public work contracts that are not subject to competitive bidding requirements, the District did not obtain quotes to ensure that they received the best price for 10 purchases totaling \$88,697. The Board appointed a claims auditor to audit and approve claims against the District but did not provide him with a written job description. As a result, the Board's expectation for the audit of claims was not clearly communicated to the claims auditor, and his audit of District claims was inadequate.

District officials did not adequately segregate duties within the Business Office. The Treasurer, who is also the payroll clerk, performed most payroll functions and most cash management functions with insufficient oversight. Even though our audit did not disclose improprieties, the concentration of key functions with one individual with insufficient oversight weakens internal controls and significantly increases the risk that errors or irregularities could occur and not be detected and addressed in a timely manner.

The District's internal controls over computer equipment were not properly designed and operating effectively to protect District laptop computers. We reviewed a sample of 111 recently purchased laptops to verify the equipment's existence and the inventory listing's accuracy and found that the District did not account for four laptops. The Business Manager did subsequently locate one laptop. However, the remaining three laptops were still missing at the end of our field work.

Internal controls over the District's information technology system were not appropriately designed to protect electronic data. The District's financial software does not provide basic tools such as audit logs or exception reports to properly monitor financial activity. Also, several users of the District's financial software had access rights that exceeded the requirements of their job duties. We were unable to determine if unauthorized changes to data occurred because the financial software did not generate audit logs. Further, the District had not established a formal Disaster Recovery Plan. Because of the control weaknesses in the District's financial software, errors or irregularities could occur and not be detected or corrected in a timely manner. Additionally, because the District does not have a formal disaster recovery plan, District personnel have no guidelines or plan to follow to help minimize or prevent the loss of equipment and data or guidance on how to implement data recovery procedures in the event of a disaster.

Comments of District Officials

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

Introduction

Background

The Union Free School District of the Tarrytowns (District) is located in the Towns of Greenburgh and Mount Pleasant in Westchester County. The District is governed by the Board of Education (Board) which comprises seven elected members. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools (Superintendent) is the chief executive officer of the District and is responsible, along with other administrative staff, for the daily management of the District under the direction of the Board.

The Business Manager, who is also the District's purchasing agent, and the Treasurer, who is also the District's payroll clerk, manage the District's finances, accounting records and reports. The Board has appointed a claims auditor who assumes the Board's powers and duties of approving or denying claims against the District.

There are six schools in operation within the District, with approximately 2,566 students and 483 employees. The District's budgeted expenditures for the 2007-08 fiscal year are \$55.6 million, which are funded primarily with State aid, real property taxes, and grants.

Objective

The objective of our audit was to determine if the District had established effective internal controls over purchasing, Business Office operations, computer equipment, and information technology (IT). Our audit addressed the following related questions:

- Has the District established adequate internal controls over purchasing to ensure that District assets are properly safeguarded?
- Has the District adequately segregated duties within the Business Office?
- Are internal controls over computer equipment designed and operating effectively to adequately safeguard District assets?
- Are internal controls over the District's information technology system appropriately designed to protect electronic data?

Scope and Methodology

We examined the District’s internal controls over purchasing, Business Office operations, computer equipment, and IT for the period July 1, 2006 to November 30, 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 specified in Appendix A, District officials generally agreed with our recommendations and indicated that they planned to take corrective action.

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

Purchasing

District officials are responsible for designing internal controls to safeguard the District's resources and ensure that these resources are used economically and efficiently. A good system of internal control consists of policies and procedures that allow a school district to provide reasonable assurance that it is using its resources effectively. This includes using competitive bidding, requests for proposals (RFPs) and quotes to procure goods and services that are needed for District operations.

The District has not established adequate internal controls over purchasing to ensure that District assets are properly safeguarded. We found that the District made five purchases totaling \$143,056 and entered into six contracts totaling \$292,762 without following competitive bidding requirements. Additionally, the District did not solicit RFPs for nine professional service contracts totaling \$811,793 and did not obtain quotes for ten purchases totaling \$88,697. We also found that the District's claims auditing process was inadequate. Because the District failed to establish and adhere to effective purchasing and claims auditing policies and procedures, there is an increased risk that the District could pay more than necessary for goods and services, and District moneys could be misused and not be detected and corrected in a timely manner.

Competitive Bidding

General Municipal Law (GML) and the District's procurement policy require competitive bidding on public work contracts over \$20,000 and purchase contracts involving an expenditure of more than \$10,000 annually for materials, supplies and equipment. The appropriate use of bids encourages competition among vendors and provides taxpayers with reasonable assurance that goods and services of desired quality are being acquired at the lowest possible price. School districts may also use certain contracts awarded through the New York State Office of General Services (OGS) or a county, or may participate in cooperative bidding with other governmental entities such as a Board of Cooperative Educational Services (BOCES).

We found that District officials had not always followed GML or the District's adopted policy when procuring goods or public work contracts that were subject to competitive bidding requirements. We identified that the District made 21 purchases totaling \$1,055,627 that were subject to competitive bidding requirements. We reviewed a sample of eight of these purchases totaling \$241,009 and found that the District did not solicit bids for five purchases totaling \$143,056. A breakdown of the purchases follows:

- \$72,567 for material and supplies
- \$20,476 for hardware
- \$19,812 for vehicle parts
- \$18,711 for vehicle accessories
- \$11,490 for janitorial materials and supplies

The Business Manager stated that the material and supplies vendor was once on the Southern-Westchester BOCES contract. However, the District did not realize that this vendor was no longer the BOCES contractor, and continued to purchase from the vendor.

We also reviewed all of the District's eight public works contracts totaling \$914,349 that were subject to competitive bidding requirements and found that the District did not solicit bids for six of these contracts totaling \$292,762. A breakdown of the purchases follows:

- \$98,290 for heating services
- \$87,914 for electrical work
- \$36,100 for replacing black top and for construction of an office
- \$26,563 for painting
- \$22,469 for plumbing work
- \$21,426 for printing the District's newsletter

The Business Manager explained that the District hired the electrical contractor, the plumber and the heating contractor without soliciting bids because the District had used them in the past and they did good work. He added that these contractors were also locally available in case the District needed their services immediately.

The District's failure to follow the Board's procurement policy and General Municipal Law increases the risk that goods or services are not obtained at the lowest possible price and does not provide adequate assurance that the District uses public moneys in a prudent manner.

Professional Services

GML does not require competitive bidding for the procurement of professional services that involve specialized skill, training and expertise; the use of professional judgment or discretion; and/or a high degree of creativity. However, GML requires the District to adopt policies and procedures governing the procurement of goods and services when competitive bidding is not required. To have an effective and comprehensive procurement policy, it is essential that the District seek competition when acquiring professional services. Requests for Proposals (RFPs) are one method for soliciting competition and are meant to ensure that the District receives the needed service for the best possible price.

The District's procurement policy does not require officials to seek competition when procuring professional services. The District paid 15 professional service vendors a total of \$1,101,817 during fiscal year 2006-07. We tested nine of these contracts totaling \$811,793 and found that District officials had not used RFPs prior to awarding these contracts to determine if they could secure better or comparable services at a lower cost. Officials explained that they conducted a lot of research, including seeking references from other districts, before they awarded a contract. They also said that the District did not consider the use of RFPs to renew existing contracts because they were pleased with the work done, and they considered the current vendors' familiarity with District issues important. Because the District failed to seek competition when procuring professional services, the District may have paid more than necessary.

Quotations

The District's purchasing policy requires officials to obtain quotes for purchases and public works contracts that are not subject to competitive bidding requirements. The use of quotes encourages competition among vendors and helps the District to ensure that it is receiving the best price for good and services. We selected a sample of 10 purchases and a public works contracts totaling \$88,697 that were not subject to competitive bidding requirements to verify the District's compliance with its procurement policy. We found no documentation showing that the District sought quotations. The Business Manager stated that when they found good local vendors, they went back to them for additional purchases without seeking competition.

When District officials disregard the District's adopted procurement policy and General Municipal Law, there is no assurance that the District is obtaining goods and services in a prudent and economical manner, and the District could pay more than necessary.

Claims Auditing

Conducting a proper audit of claims before the District pays them is an integral part of any internal control system. Education Law requires the Board to audit each claim before authorizing payment. Education Law further authorizes the Board to adopt a resolution to appoint a claims auditor to perform this important function. The claims auditor assumes the Board's power and duties for approving and disapproving the claims against the District. If the Board chooses to appoint a claims auditor, the Board must provide the claims auditor with a written job description or list of duties to communicate the claims auditor's responsibilities and the Board's specific expectations of the claims audit process. At a minimum, the claims auditor's duties should include reviewing each payment or voucher packet for complete documentation, legitimacy of expenditure, mathematical accuracy, proper approval in accordance with District policy, and

compliance with GML and Board policy. In addition, after the claims auditor has audited claims against the District, it is essential that District personnel retain the documentation on file that shows the claims have been audited. With limited exceptions, the Treasurer may not pay claims unless the claims auditor has reviewed and certified the claims. Additionally, the claims auditor should periodically report directly to the Board to ensure his/her ability to act independently.

The Board appointed a claims auditor, but did not provide him with a job description or written policies and procedures to perform his duties. The claims auditor stated that he sought guidance from the Business Manager when he had questions about his duties, which weakens the claims audit process. While we found that the claims auditor signed off on all checks we reviewed to indicate that he had audited the related claim packets, he did not conduct a thorough review to verify that the claims were proper and supported. For example, the claims auditor signed all the warrants, but did not date them, so it was not possible to determine when the audit took place. Also, he did not verify that District officials adhered to GML and District policies when procuring goods and services by soliciting competitive bids, using RFPs, or obtaining quotes when required. He did not compare any contracts with the Board's minutes to verify that payments were authorized. Furthermore, the claims auditor did not address questionable payments with the Board.

The President of the Board stated that the Board did not think it was necessary to provide the claims auditor with a job description because the claims auditor is a former Board member. In addition, the District could not provide us with a single claims audit report that the claims auditor submitted to the Board. His communication with the Board appeared to be limited to the submission of signed but undated warrants. By the end of the field work, the claims auditor had started dating the signed warrants to indicate when the audit took place.

When the audit of claims is not adequate, the Board cannot be assured that payments made for goods and services represent legitimate and necessary charges to the District. As a result, District moneys could be misused and not be detected or corrected in a timely manner.

Recommendations

1. District officials should follow the provisions of the District's adopted purchasing policy and General Municipal Law and publicly advertise for bids of purchase and public works contracts that are subject to competitive bidding requirements.
2. The Board should revise the District's procurement policy to include provisions for the procurement of professional services. In

addition, District officials should award contracts to professional service providers only after soliciting competitive proposals.

3. The District should follow its procurement policy and obtain quotations prior to selecting the vendors for purchases and public work contracts that fall below the bidding thresholds.
4. The Board should develop written procedures and guidelines for the examination and approval of claims to clearly communicate its expectations of the claims auditor, and should monitor the claims auditor's activities to ensure compliance or provide guidance when necessary.
5. The claims auditor should report directly to the Board with any questions or concerns pertaining to claims.
6. The claims auditor should periodically prepare comprehensive written reports to the Board.

Segregation of Duties

An effective system of internal controls provides for the segregation of duties so that no single individual controls all phases of a transaction. When key duties and responsibilities are segregated, the District establishes checks and balances over its financial operations to reduce the risk that errors and/or irregularities could occur and go undetected. When it is not practical to segregate duties because of limited staff resources, it is important to establish compensating controls. Such compensating controls could include the requirement that administrative staff periodically review the work in question or that duties be rotated among appropriate staff members. In addition, it is important that the District's accounting software produce change reports for proper monitoring of financial activity, and for District officials to independently review those reports. We found that the District did not adequately segregate duties over payroll and cash management. While our testing did not reveal any discrepancies, the failure to adequately segregate duties over payroll and cash management increases the risk that inappropriate transactions could be initiated and not be detected and corrected.

Payroll

The District has not adequately segregated duties over payroll and the cash management functions performed by the payroll clerk, who also serves as the District's Treasurer. The Treasurer/payroll clerk performs both payroll and human resources duties. He is responsible for recording payroll transactions, entering employee payroll changes, collecting time sheets, entering hours worked and salaries paid, recording employee leave charges and maintaining the leave accrual system, posting expenditures to ledgers, preparing and direct depositing of paychecks. He also has an unrestricted access to personnel files. An employee with these conflicting duties could make unauthorized changes to pay rates or pay non-existent employees without being detected. Although the District has a limited number of employees to allow for optimum segregation of duties, District officials could mitigate the existing risk by assigning some of the above tasks to the Assistant Superintendent or her staff. The Assistant Superintendent's duties are currently limited to interviewing prospective employees and making recommendations with salary proposals to the Superintendent and the Board.

The District's payroll certification process is also inadequate. Even though the District has instituted procedures such as having the District clerk verify the accuracy of employee time sheets before the Deputy Treasurer/accounts payable clerk sign the payroll checks, these procedures are insufficient because they do not include

testing to verify that the employees are legitimate or the pay rates are authorized. Also, the procedure performed by the District clerk is limited to hourly employees who are a small percentage of the District's staff. The District clerk does not review salaried employees' time records to verify that the employees are legitimate or the pay rates are authorized.

Due to the weaknesses mentioned above, we selected a sample of 10 individuals who were reported and paid on the November payroll register to verify that they were legitimate employees and were paid their approved salaries and wages. We found no exceptions. In addition, we reviewed the annual salary and benefits payments of the Superintendent, Assistant Superintendent, Business Manager and two Principals to verify that they were paid their approved salaries and wages and also found no exceptions. We also examined 20 timesheets that were submitted by 20 individuals from the Department of Buildings and Grounds to verify that they were legitimate District employees and that their timesheets were calculated correctly and approved by the department head. We found no exceptions.

Our tests of six of the 72 health insurance buy-out payments that the District made during the current fiscal year showed that the payments were made in accordance with collective bargaining agreements or employment contracts, and we verified that each employee who received a buy-out payment had the required signed declination of health insurance form on file. We also examined separation payments that the District made to six other employees and found that the amounts were correctly calculated and were made in accordance with collective bargaining agreements or Board resolutions.

Although our audit testing did not find any improprieties or material exceptions, the lack of proper segregation of duties and managerial oversight over the payroll process increases the chance that errors or irregularities could occur and not be detected and addressed in a timely manner.

Cash Management

An effective system of internal controls over cash disbursements requires that key duties be segregated so that no one employee controls all facets of a transaction. It is important that transaction approval, accounting, and asset custody are separated to reduce the risk that errors and/or irregularities could occur and go undetected. For example, the same individual should not collect and record cash receipts, make bank deposits, prepare and post journal entries, sign checks, and perform or supervise the reconciliation of the District's bank accounts.

We found that the District did not provide adequate segregation of duties over financial transactions. The Treasurer/payroll clerk recorded and invested District moneys in interest-bearing accounts, made journal entries, processed all electronic wire transfers, processed checks, and signed District checks. The Treasurer/payroll clerk had custody of checks and cancelled checks and received wire transfer confirmations. In addition, he prepared the monthly bank reconciliation. The Business Manager signed off on all bank reconciliations to indicate that he had reviewed them, but based on our interview he did perform a thorough review of the bank reconciliation such as verifying the accuracy of some of its components.

We tested 36 cash disbursements totaling \$827,387 to verify that the payments were authorized, properly recorded and documented, and were legitimate District charges. We found no discrepancies or improprieties. We also reviewed two recent bank reconciliations and recalculated the October 31, 2007 bank reconciliation to verify that the District accurately accounted for all cash transactions in a timely manner. We found no exceptions.

Although we found no discrepancies, assigning key cash disbursement duties to one individual with insufficient oversight weakens internal controls and significantly increases the risk that inappropriate transactions could be initiated and not be detected and corrected.

Recommendations

7. District officials should develop policies and procedures to ensure proper segregation of duties over payroll and cash disbursement. When it is not possible to segregate duties, District officials should assign some responsibilities to other District staff.
8. District officials should ensure that someone independent of the cash-management process perform complete and accurate monthly bank reconciliations.

Computer Equipment

A sound system of internal controls helps ensure that District assets are adequately protected against loss, waste, and misuse. Capital assets have a useful life of more than one year and include land, buildings, furnishings, vehicles and electronic equipment such as computers. Movable assets such as laptop computers, printers, and cameras are inherently more susceptible to loss or misuse and require particular controls to protect them. Such controls must ensure that these assets are uniquely identified as District property and readily located. Capital asset protection is enhanced when quality records are maintained. Complete and accurate accounting records for capital assets are also necessary for proper financial reporting. These records help establish accountability by assigning responsibility for the control and custody of District property, and they provide assurance that such property is safeguarded.

Our audit disclosed that the District needs to improve internal controls over laptop computers to protect against loss or misuse. We reviewed a sample of 111 recently purchased laptop computers to verify their existence and the accuracy of the District's inventory list,¹ and found that four laptops were not on the inventory list. The District did not maintain accurate records to help identify the individuals to whom those laptops were assigned. The Business Manager explained that the District's Information Technology (IT) contractor was responsible for assigning newly-purchased computers to District personnel and for taking a physical inventory at the end of each year. However, the IT-contractor failed to maintain accurate records of employees who were assigned the laptops. In addition, we found that the District did not reconcile the old inventory list with the new inventory count to determine and rectify any discrepancies. The discrepancy between the number of laptops purchased and listed on the asset records, combined with the officials' inability to locate those laptops, indicate an increased risk that District-owned computer equipment could be lost or misused. The Business Manager subsequently located one of the missing laptops, but the remaining three were still not found by the end of our field work. However, by the end of our field work, the Business Manager had adopted procedures for the recording of laptop computers on the District's inventory records.

Recommendations

9. District officials should locate the three missing laptop computers.

¹ An inventory list matches laptop serial numbers with the names of the District employees who were assigned the laptops.

10. District officials should ensure that the new procedure adopted by the Business Manager to protect computer equipment is implemented.
11. District officials should also ensure that the inventory listing and the purchases and deletions made during the year are reconciled with the periodic inventory count. Any discrepancies arising from the reconciliation should be addressed and resolved.

Information Technology

Information technology is a valuable District resource. The District uses information technology to initiate, process, record and report its financial transactions. If the computers on which this data is stored fail, the results could range from inconvenient to catastrophic. Even small disruptions in electronic data systems can require extensive employee and consultant effort to evaluate and repair. It is important that the District's computerized fiscal management system generate audit logs that show the transactions that have taken place and by whom, so District officials can easily identify and address discrepancies. Access to computer data systems must be controlled and monitored to reduce the risk of misuse and/or alteration of data resulting in potential financial loss to the District. A formal disaster recovery plan is necessary to provide guidance on the prevention of the loss of computer data as well as the recovery of computer data in the event of a disaster. We found that the District did not establish these controls. Because of the control weaknesses in the District's financial software, errors or irregularities could occur and not be detected or corrected in a timely manner. Additionally, because the District does not have a formal disaster recovery plan, District personnel have no guidelines or plan to follow to help minimize or prevent the loss of equipment and data or guidance on how to implement data recovery procedures in the event of a disaster.

Audit Logs

It is important that the District's computerized fiscal management system allow officials to determine who is accessing the system and what transactions are being processed. Audit logs, also known as audit trails, maintain a record of activity by system or application process. The audit log should provide the following information: the identity of each person who has accessed the system; the time and date of the access; what activity occurred, and the time and date of sign off. Ideally, District management or a designee should review this audit log to monitor the activity of users who access the financial management software. This tool provides a mechanism for individual accountability, reconstructing events and problem monitoring.

Currently, the District's financial management software does not generate reports needed to properly monitor financial activity. Specifically, the software will not generate change reports that show, for example, the addition and deletion of employees, changes in employee pay rates and leave accruals, vendor changes, or the addition or deletion of general and subsidiary ledger accounts. The software will allow anyone who has access to it to change purchase order numbers and check amounts. Journal entries cannot be erased,

but their amounts can be edited. The software does not have the ability to generate audit logs that identify who made changes or entered transactions into the system. Therefore, an environment exists in which unauthorized users could access critical business applications and could manipulate or corrupt sensitive data without detection and correction. Because the District's financial software does not generate a log of user access to the business applications, we were unable to determine whether there had been any unauthorized user activity. Employees in the Business Office stated that they knew about these weaknesses and thought that an upgrade of the systems was overdue. The Business Manager stated that he was aware of the weaknesses and had been using the budget to monitor them. He admitted that small, unauthorized changes to the records would be hard to catch, but a major change would distort his expectation for the affected budget line item(s) and represent a reason for him to investigate the change. When audit logs or exception reports are not generated and reviewed, management cannot be assured that unauthorized activities are detected and adequately addressed.

User Access and Passwords

Access controls should provide reasonable assurance that computer resources are protected from unauthorized modifications. To control electronic access, a computer system or application needs a process to identify and differentiate among users. User accounts identify users and establish relationships between a user and a network, computer, or application. These accounts are created by the systems administrator or coordinator and contain information about the users, such as passwords and access rights to files, applications, directories and other computer resources. Access controls include establishing adequate passwords, limiting administrator accounts, and restricting users to only the applications that are necessary for their day-to-day operations.

User Access — To ensure proper segregation of duties and internal controls, the financial management system should only allow users to access the computer functions that are necessary to fulfill their job responsibilities. Having access controls in place prevents users from being involved in multiple aspects of financial transactions. Generally, a system administrator is designated as the person who has oversight and control of the system, and has the ability to add new users and change users' passwords and rights. With this ability, administrators are able to control and use all aspects of the software. A good system of controls requires that this position be separate from the Business Office function. However, the Director of Technology gave us a list of users that shows that the Superintendent, Assistant Superintendent for Personnel and Instruction, Business Manager, Treasurer/payroll clerk, Deputy Treasurer/accounts payable clerk, and two Business Office support persons have access to all modules

of the financial software. It is important that none of these individuals have full access to the financial software because one individual must not control most phases of a financial transaction. Additionally, the Business Manager has administrative rights to the District's financial software applications, which allows him to add new users and change users' passwords and rights. With this ability, the individual is able to control and use all aspects of the financial software applications, thereby controlling most phases of any transaction he chooses. The Business Manager thought that he needed this ability so he could monitor the District's finances because of the weaknesses of the financial software.

Passwords — Passwords are used to identify and authenticate a user who attempts to access a District's computer system or applications. The more complex a password, the better the chances are that unauthorized users will be prevented from obtaining access to the system. Since passwords can be guessed, copied, or overheard, passwords should be complex, password changes should be made periodically and access rights should be revoked upon a set number of failed sign-on attempts. Using these techniques significantly increases the District's protection in preventing unauthorized users from accessing sensitive information.

The District's Director of Technology informed us that the District provided passwords to both students and employees to ensure that the complexity requirements were met. She added that the passwords were not changed after they were assigned. We attempted to verify the revocation of access rights upon three failed sign-on attempts by having an employee of the Business Office input wrong passwords several times in a row and found that access rights were not revoked. The employee stated that the system allowed an unlimited number of sign-on attempts.

We reviewed the salaries of the Superintendent, the Assistant Superintendent of Personnel and Instruction, the Business Manager, and all Business Office staff, who all had full access to the District's financial software. We found that they were paid the correct amounts and received only the benefits that they were entitled.

Although we found no discrepancies, because of the control weaknesses in the District's financial software, errors or irregularities could occur and not be detected or corrected in a timely manner.

Disaster Recovery

An effective internal control system requires a formal disaster recovery plan to prevent the potential loss of computer resources, and to outline procedures for the recovery of data in the event of

a disaster. A disaster² recovery plan (DRP), sometimes referred to as a business continuity plan or business process contingency plan, describes how an organization must deal with potential disasters. It describes the precautions that must be taken to minimize the effects of a disaster and enable the organization to restore data and either maintain or quickly resume its mission-critical functions. Typically, disaster recovery planning involves an analysis of business processes and continuity needs, and may also include a significant focus on disaster prevention.

District officials had not established a formal disaster recovery plan. Consequently, in the event of a disaster, District personnel have no guidelines or plan to follow to help minimize or prevent the loss of equipment and data or guidance on how to implement data recovery procedures.

Recommendations

12. District officials should work with their financial software provider to update the financial management system to produce exception and change reports. If the system can be modified, someone independent of the Business Office should review the monitoring reports generated by the system. If the system cannot be modified to produce appropriate exception/change reports, then District management should institute compensating controls.
13. District officials should evaluate employees' job descriptions and assign computer system access rights to match their respective job functions.
14. District officials should establish a policy and establish procedures authorizing personnel, specifically those who have access to the financial software, to use self-created passwords that meet complexity requirements. Additionally, District officials should ensure that those passwords are changed frequently.
15. Someone independent of the Business Office operations should assign user access rights to the fiscal management system.
16. District officials should develop a formal disaster recovery plan.

² A disaster is defined as a sudden, unplanned catastrophic event that compromises the integrity and data of the IT systems. This could include a fire, computer virus, or inadvertent employee action.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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



Public Schools of the Tarrytowns

ADMINISTRATIVE OFFICES 200 North Broadway · Sleepy Hollow, New York 10591 · FAX (914) 332-6274

Howard W. Smith, Ph.D.
Superintendent of Schools
(914) 631-9404
email – hsmith@tufsd.org

Barbarann Tantillo, Ed.D.
Assistant Superintendent
(914) 631-9406
email – btantillo@tufsd.org

John J. Staiger, Jr.
Assistant Superintendent for Business
(914) 631-9401
email – jstaiger@tufsd.org

July 29, 2008



Office of the State Comptroller
Division of Local Government Services
and Economic Development
33 Airport Center Drive
New Windsor, NY 12553

Dear [REDACTED]:

First, I would like to thank the Comptroller’s Office for providing a document that will enhance the fiscal integrity of the School District. Prior to responding to the body of the report, I wish to share a concern regarding the Executive Summary as a reflection of the full report. The Audit Results section begins with a very harsh sounding statement that will most likely become the basis for the headline in the newspaper once the report is released. This would be a disservice to the district. We would respectfully request that the summary begin with a brief overview paragraph characterizing the overall results of the audit and establishing a context for interpreting the significance of the areas of concern that were identified. We would also request that the summary more accurately reflect the body of the report by making more specific reference to the numerous areas where no exceptions were found. For example:

See
Note 1
Page 27

Segregation of Duties

- Payroll
 - Even though the report indicates that the payroll certification process is “inadequate”, no exceptions were found.
 - No exceptions were noted upon review of administrator’s annual salaries. In addition, 20 Buildings and Grounds time sheets were sampled for accuracy with no errors mentioned.
 - The report confirms that health insurance buyouts were paid in accordance with collective bargaining agreements.
- Cash Management – Treasurer/Payroll Clerk
 - Bank reconciliations were timely with no exceptions noted.
 - Cash disbursements totaling \$827,387 were tested with no improprieties or discrepancies.

Information Technology

- User Access and Pass codes
 - Even though our current software package does not provide appropriate controls to limit access by job function (therefore individuals have greater access than needed), all payments for salaries and reimbursement to central administration and business office staff were correct.

Listed below are the Public Schools of the Tarrytowns' response and corrective action plan to the NYS Comptroller's Report of Examination for the period July 1, 2006 – November 30, 2007.

Purchasing

Competitive Bidding

Except for emergency situations to ensure the health and safety of the occupants of our buildings, bid documents will be created in accordance with General Municipal Law as recommended. Corrections to date include purchasing general office supplies from State Contract Vendors.

Professional Services

Prior to the receipt of the draft report, the Board of Education discussed at their July 8th reorganizational meeting creating a cycle for the procurement of professional services. This document is in process and will parallel the same procurement guidelines per the School Fiscal Accountability Act for External and Internal Auditing services.

Quotations

As with the other items under the purchasing umbrella, the District is in the process of setting up procedures to obtain quotations on items that are under the bidding threshold per the District's purchasing policy.

With respect to the purchasing policy, the Board of Education will review its purchasing policy to include procurement of professional services.

Claims Auditing

The Claims Auditor has recently attended a workshop on the roles and responsibilities of the position. In addition, following the audit, the District has verbally made suggestions to the Claims Auditor. These procedures will be put in writing including a job description.

Segregation of Duties

Payroll

As discussed at the exit interview, the personnel function of inputting new employees and related payroll information will be shifted from the payroll department to the personnel department once the position is permanently filled.

Cash Management

During the audit process, the cash management procedures were changed to reflect enhanced internal controls. The Treasurer no longer handles cash or mail, as the office assistant opens and records receipts and the Deputy Treasurer makes the daily deposit. The Assistant Superintendent for Business will review and certify the monthly Treasurers reports.

Computer Equipment

As a result of the audit, the Director of Technology has scheduled a full on-site review of all computer equipment. At the conclusion of the Sleepy Hollow construction project, which is scheduled for December 2008, the District is scheduled for a complete appraisal and review of all fixed assets by an outside appraisal company. This service is being provided through the District's insurance carrier, New York Schools Insurance Reciprocal (NYSIR).

Information Technology

We are working on enhancing or changing the District's financial software to provide for optimum levels of security, which includes the Director of Technology being assigned the task of system administrator. Once fully implemented, the information technology comments will be corrected. The first review is scheduled for September 12, with full implementation completed by June 30, 2008.

The District will review the existing disaster recovery plan to ensure the plan takes all the precautions and establishes guidelines to minimize operational losses.

In closing, like other small to medium sized districts throughout the State, we have responded to taxpayer concerns by maintaining a relatively lean central office staff. Therefore it is unlikely that we would be able to fully comply with some of the State Comptroller's recommendations for more complete segregation of duties without additional staffing. We are confident that the audit report will be helpful to us as we continue our efforts to maintain an appropriate balance between operational cost efficiency and operational safeguards.

See Note 2 Page 27

Sincerely,



John J. Staiger, Jr.

Assistant Superintendent for Business

Cc: Dr. Howard W. Smith, Superintendent of Schools
Dr. Barbarann Tantillo, Assistant Superintendent
Board of Education

APPENDIX B

OSC COMMENTS ON THE DISTRICT'S RESPONSE

Note 1

The executive summary accurately reflects the body of our report and makes specific references where no exceptions were found. For example, the executive summary states that although the District did not adequately segregate the duties in the Business Office, specifically the duties of the Treasurer/payroll clerk, our audit did not disclose any improprieties.

Note 2

The District will not necessarily need additional staffing to segregate duties. During the audit, we made suggestions to District officials about how the District could better segregate duties or institute compensating controls.

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 purchasing, Business Office operations, computer equipment and information technology. Our examination included the following:

- We interviewed the claims auditor and reviewed audited claims to determine whether the claims were thoroughly audited before payments were made.
- We tested procurement transactions for compliance with statutory bidding requirements and the District's procurement policy by reviewing vendor payment files, invoices, and receiving certification.
- We examined user permission reports to determine if users were granted access rights only to the computer applications that were appropriate for their job duties.
- We examined whether the system generated audit logs.
- We performed physical observations of computer hardware and systems.
- We reviewed cash disbursement transactions for accuracy and proper authorization.
- We reviewed all collective bargaining agreements and individual employee contracts for our audit period to ensure salary payments were authorized and made in accordance with the agreements.

- We reviewed 20 timesheets from hourly employees for two pay periods to determine their accuracy.
- We reviewed and tested eight employee leave time records to determine their accuracy.

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

HOW TO OBTAIN ADDITIONAL COPIES OF THE REPORT

To obtain copies of this report, write or visit our web page:

Office of the State Comptroller
Public Information Office
110 State Street, 15th Floor
Albany, New York 12236
(518) 474-4015
<http://www.osc.state.ny.us/localgov/>

APPENDIX E

OFFICE OF THE STATE COMPTROLLER DIVISION OF LOCAL GOVERNMENT AND SCHOOL ACCOUNTABILITY

Steven J. Hancox, Deputy Comptroller
John C. Traylor, Assistant Comptroller

LOCAL REGIONAL OFFICE LISTING

BUFFALO REGIONAL OFFICE

Robert Meller, Chief Examiner
Office of the State Comptroller
295 Main Street, Suite 1032
Buffalo, New York 14203-2510
(716) 847-3647 Fax (716) 847-3643
Email: Muni-Buffalo@osc.state.ny.us

Serving: Allegany, Cattaraugus, Chautauqua, Erie,
Genesee, Niagara, Orleans, Wyoming counties

ROCHESTER REGIONAL OFFICE

Edward V. Grant, Jr., Chief Examiner
Office of the State Comptroller
The Powers Building
16 West Main Street – Suite 522
Rochester, New York 14614-1608
(585) 454-2460 Fax (585) 454-3545
Email: Muni-Rochester@osc.state.ny.us

Serving: Cayuga, Chemung, Livingston, Monroe,
Ontario, Schuyler, Seneca, Steuben, Wayne, Yates
counties

SYRACUSE REGIONAL OFFICE

Eugene A. Camp, Chief Examiner
Office of the State Comptroller
State Office Building, Room 409
333 E. Washington Street
Syracuse, New York 13202-1428
(315) 428-4192 Fax (315) 426-2119
Email: Muni-Syracuse@osc.state.ny.us

Serving: Herkimer, Jefferson, Lewis, Madison,
Oneida, Onondaga, Oswego, St. Lawrence counties

BINGHAMTON REGIONAL OFFICE

Patrick Carbone, Chief Examiner
Office of the State Comptroller
State Office Building, Room 1702
44 Hawley Street
Binghamton, New York 13901-4417
(607) 721-8306 Fax (607) 721-8313
Email: Muni-Binghamton@osc.state.ny.us

Serving: Broome, Chenango, Cortland, Delaware,
Otsego, Schoharie, Sullivan, Tioga, Tompkins
counties

GLENS FALLS REGIONAL OFFICE

Karl Smoczynski, Chief Examiner
Office of the State Comptroller
One Broad Street Plaza
Glens Falls, New York 12801-4396
(518) 793-0057 Fax (518) 793-5797
Email: Muni-GlensFalls@osc.state.ny.us

Serving: Clinton, Essex, Franklin, Fulton, Hamilton,
Montgomery, Rensselaer, Saratoga, Warren, Washington
counties

ALBANY REGIONAL OFFICE

Kenneth Madej, Chief Examiner
Office of the State Comptroller
22 Computer Drive West
Albany, New York 12205-1695
(518) 438-0093 Fax (518) 438-0367
Email: Muni-Albany@osc.state.ny.us

Serving: Albany, Columbia, Dutchess, Greene,
Schenectady, Ulster counties

HAUPPAUGE REGIONAL OFFICE

Jeffrey P. Leonard, Chief Examiner
Office of the State Comptroller
NYS Office Building, Room 3A10
Veterans Memorial Highway
Hauppauge, New York 11788-5533
(631) 952-6534 Fax (631) 952-6530
Email: Muni-Hauppauge@osc.state.ny.us

Serving: Nassau, Suffolk counties

NEWBURGH REGIONAL OFFICE

Christopher Ellis, Chief Examiner
Office of the State Comptroller
33 Airport Center Drive, Suite 103
New Windsor, New York 12553-4725
(845) 567-0858 Fax (845) 567-0080
Email: Muni-Newburgh@osc.state.ny.us

Serving: Orange, Putnam, Rockland, Westchester
counties