



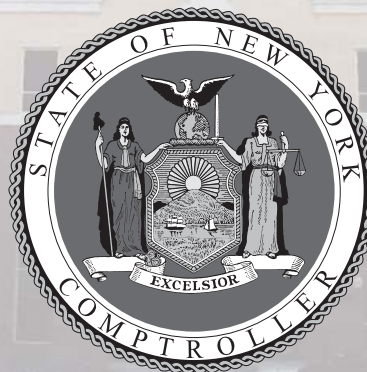
Unatego Central School District Internal Controls Over Selected Financial Activities and Information Technology

Report of Examination

Period Covered:

July 1, 2006 — February 11, 2008

2008M-152



Thomas P. DiNapoli

Table of Contents

	Page
AUTHORITY LETTER	3
EXECUTIVE SUMMARY	4
INTRODUCTION	6
Background	6
Objective	6
Scope and Methodology	7
Comments of District Officials and Corrective Action	7
CONTROL ENVIRONMENT	8
Recommendation	9
PURCHASING	10
Solicitation of Quotes	10
Blanket Purchase Orders	11
Requests for Proposals	13
Recommendations	14
INFORMATION TECHNOLOGY	15
Software Access Rights	15
Network Access Controls	16
Physical Controls	17
Recommendations	18
CLAIMS AUDITOR	19
Recommendations	20

Table of Contents

	Page
APPENDIX A Response From District Officials	21
APPENDIX B OSC Comments on the District's Response	29
APPENDIX C Audit Methodology and Standards	30
APPENDIX D How to Obtain Additional Copies of the Report	31
APPENDIX E Local Regional Office Listing	32

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

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

Respectfully submitted,

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



State of New York Office of the State Comptroller

EXECUTIVE SUMMARY

The Unatego Central School District (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 District Business Official, who also serves as the purchasing agent, plays a key role in the daily administration of the business office.

The District contracts with Delaware-Chenango-Madison-Otsego Board of Cooperative Educational Services (DCMO BOCES) for educational and related support services.

The District employs a Technology Director (Director) who oversees two staff members.

Scope and Objective

The objective of our audit was to evaluate controls over the financial operations and information technology for the period July 1, 2006, to February 11, 2008. Our audit addressed the following related questions:

- Did District officials establish adequate purchasing policies and procedures and ensure that they were followed?
- Has the District established adequate internal controls over information technology to protect electronic data and assets?
- Did the Board appoint a claims auditor in accordance with New York State Education Department regulations?

Audit Results

The Board did not establish adequate internal controls over various areas of the District's financial operations, nor did it provide sufficient compensating oversight. These control deficiencies, which included the lack of adequate policies and procedures related to purchasing, claims auditing, and information technology, combined with insufficient oversight of the Business Official/purchasing agent resulted in the improper handling of blanket purchase orders; the failure to solicit quotes for

purchases below the bidding amounts or use the request for proposal process to retain the independent auditor; and the exposure of District assets and data to the risk of error or loss. In addition, the Board appointed a non-independent person as the claims auditor.

District officials did not establish adequate purchasing policies and procedures. Although the Business Official implemented informal procedures that required the use of quotations for purchases below the bidding threshold, those procedures were not documented and were not followed. As a result, the District did not solicit quotes for 11 of 15 purchases selected for testing between \$1,000 and \$10,000, totaling approximately \$36,400. We also found that District officials did not establish adequate procedures regarding the proper use of blanket purchase orders. Further, the District did not use the request for proposal process to solicit competition for its annual financial statement audit and contracted with the same audit firm for many years. When District officials disregard the law and fail to adopt or follow policies and procedures, the District's taxpayers cannot be assured that their tax dollars are spent in the most economical manner.

District officials did not implement formal policies and procedures relating to software user access and passwords, unauthorized software installation on the District's computers and backup of non-financial data or a formal disaster recovery plan. In addition, one wiring closet was in danger of damage because District officials did not take appropriate action to repair or move the location of the wiring closet. These weaknesses significantly increase the risk that sensitive or mission-critical data and hardware and software systems may be lost, compromised, or damaged, or that the computer data system could be disrupted.

The Board did not appoint a claims auditor in accordance with New York State Education Department regulations. The Delaware, Chenango, Madison, Otsego (DCMO) BOCES, who provided significant services to the District, was also the employer of the claims auditor. We found two BOCES contractual payments that were not supported with the appropriate documentation to ensure the amount charged was accurate. We question how the claims auditor was able to audit these claims properly without the appropriate support. Without a proper audit of the claims, there is no assurance that the payments are made in the correct amount and for legitimate District charges only.

Comments of District Officials

The results of our audit and recommendations have been discussed with District officials and their comments, which appear in Appendix A, have been considered in preparing this report. Except as specified in Appendix A, District officials generally agreed with our recommendations and indicated they planned to take corrective action. Appendix B includes our comments on the issues raised in the District's response letter.

Introduction

Background

The Unatego Central School District (District) is located in the Towns of Otego, Unadilla, and Sidney, in Otsego and Delaware Counties. 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 day-to-day management of the District under the direction of the Board.

There are three schools in operation within the District, with approximately 1,160 students and 250 employees. The District's budgeted expenditures for the 2007-08 fiscal year were \$19.9 million, which were funded primarily with State aid, real property taxes, and grants. All accounting transactions are processed on a computerized financial system. For the fiscal year ending June 30, 2007, non-payroll cash disbursements totaled approximately \$8.8 million and payroll disbursements totaled approximately \$11.3 million.

The District Business Official, who also serves as the purchasing agent, plays a key role in the daily administration of the business office.

The District contracts with Delaware-Chenango-Madison-Otsego Board of Cooperative Educational Services (DCMO BOCES) for educational and related support services. The District also contracts with DCMO BOCES Central Business Office (CBO), which is a centralized office run by a professional Business Manager and shared support staff which allows school districts to share the cost of business services, such as claims auditing services and cash disbursements.

The District employs a Technology Director (Director) who oversees two staff members. The Information Technology Department is responsible for network administration, monitoring and security, and other technology related functions.

Objective

The objective of our audit was to evaluate controls over the financial operations and information technology. Our audit addressed the following related questions:

- Did District officials establish adequate purchasing policies and procedures and ensure they were followed?

- Has the District established adequate internal controls over information technology to protect electronic data and assets?
- Did the Board appoint a claims auditor in accordance with New York State Education Department regulations?

Scope and Methodology

We examined internal controls over selected financial activities and information technology of the Unatego Central School District for the period July 1, 2006, to February 11, 2008.

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

Comments of District Officials and Corrective Action

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

Control Environment

As managers of District operations, the Board and District officials are responsible for accounting for District assets and protecting them from fraud, waste and abuse. A vital component of any control system is the “tone at the top,” or control environment. The foundation of any effective control environment is competent managers with integrity that attentively monitor operations. Having a good control environment helps ensure that all employees follow District policies and procedures. To achieve these goals, management must first establish the clear policies and procedures that will govern operations, communicate these broadly, and then ensure that all employees comply with these policies and procedures. To establish the proper control environment, management must act with the highest ethical standards and must adhere to the same rules and regulations that they expect all other staff to adhere. Management must show leadership in carefully safeguarding the public resources that are entrusted to them.

Based on our review of Board minutes, the District experienced significant turnover during the 2006-07 and 2007-08 fiscal years. Five Board members resigned from their positions, or decided not to seek re-election at the end of their term. During our scope period, only three of the seven Board members had been in office for longer than one year. Because of the high turnover rate, it is even more critical that the Board establish a good system of internal controls and provide sufficient oversight over financial operations.

We found that the Board did not establish certain internal controls or provide sufficient oversight of the District’s financial operations. For instance, the Board did not solicit requests for proposals, as required by the Comptroller’s Five-Point Plan, for their annual external audit. Their external audit firm has performed financial audit services for the District since at least 2000. In addition, the Board did not appoint a claims auditor in accordance with New York State Education Department regulations and did not adopt a formal disaster recovery plan.

Further, the Board did not monitor the responsibilities of the Business Official to ensure that he was appropriately fulfilling his job duties as purchasing agent and Business Official. For instance, the Board did not ensure that, as purchasing agent, the Business Official created formal procurement procedures for items under the competitive bidding thresholds or verified staff’s compliance with established procedures, including those relating to blanket purchase orders.

Further, the Board did not ensure that the Business Official assigned user access rights to the computerized financial system based on employees' job duties. Both the Business Official and the payroll clerk had excessive user rights in the accounts payable and payroll modules of the computerized financial system, which gave them the ability to complete most aspects of the cash disbursement and payroll transactions.

If the Board does not establish and monitor certain internal controls over financial operations, the deficiencies mentioned in this report will continue to exist. Weaknesses in internal controls, such as those mentioned throughout this report, combined with a lack of Board oversight, increase the risk that the District will be subject to theft, waste and abuse.

Recommendation

1. The Board should develop stronger internal controls and establish a better system for the proper management of District financial operations to strengthen its oversight of those operations.

Purchasing

A good system of internal controls over purchasing consists of policies and procedures that allow an organization to provide reasonable assurance that it is using its resources effectively and is complying with applicable laws and regulations. General Municipal Law (GML) requires school districts to adopt written policies and procedures for the procurement of goods and services not subject to competitive bidding requirements. An effective procurement process helps the District obtain services, supplies and equipment of suitable quality and quantity, from the best qualified and lowest-priced source, and in compliance with legal requirements. An effective procurement process also consists of policies and procedures that address the proper use of blanket purchase orders. This process helps the District expend taxpayer dollars efficiently and guards against favoritism, extravagance, and fraud. Finally, Education Law requires that school districts use a competitive request for proposal (RFP) process when contracting for their annual external audits.

The Board did not establish adequate purchasing policies and procedures and did not ensure that existing policies were followed. While the District does have purchasing policies and procedures, they are incomplete or inadequately enforced, as evidenced by the poor controls over the use of blanket purchase orders. The Board delegated the responsibility of implementing procedures for the competitive purchasing of good and services, including specific dollar limits for non-bid procurements, to the District's administration. While it was acceptable for the Board to delegate that authority, it did not review the limits for approval or monitor the purchasing agent to ensure that the procedures were documented and followed. Although the Business Official issued a formal memo that described the acceptable requisition and purchase order procedures, the part that related to blanket purchase orders was inadequate. Also, District officials did not ensure that staff followed existing blanket purchase order procedures as noted in the memo. Finally, District officials did not use the required RFP process to solicit competition for its annual financial statement audits and contracted with the same audit firm for many years without seeking competition.

Solicitation of Quotes

General Municipal Law (GML) requires school districts to adopt written policies and procedures for the procurement of goods and services not subject to competitive bidding requirements. Adequate purchasing policies and procedures require that alternative proposals or quotations for goods and services be secured through the use of written requests for proposals, or written or verbal quotations.

The Board adopted a procurement policy on “Competitive Bids and Quotations” that required that “rules shall be developed by the administration for the competitive purchasing of goods and services, including the specific dollar limits required by the District for non-bid procurements.” Although the Board has adopted this policy, it has not provided any guidance on the procurement of goods and services that are not subject to competitive bidding requirements. Per Board delegation of authority, the Business Official implemented informal procedures that required three verbal quotations for purchases between \$1,000 and \$3,000, and two or three written quotes for purchases between \$3,001 and \$10,000. However, the Board did not review the limits or the procedures to determine whether they were adequate. As a result, those procedures were not documented and were not followed. We tested 15 purchases between \$1,000 and \$10,000 and found the District did not solicit quotes for 11 of the 15 purchases (73 percent) totaling approximately \$36,400. For example, the District paid approximately \$7,600 for football equipment and a scoreboard and did not solicit quotes for this purchase.

According to the Business Official, he did not establish formal written guidelines because he used the informal procedures. Without adequate, written purchasing policies and procedures, staff did not have guidance to properly make purchases and District officials could not ensure that they received services, supplies and equipment of suitable quality and quantity, from the best qualified and lowest-priced source.

Blanket Purchase Orders

An effective procurement process consists of adequate policies and procedures to address the proper use of blanket purchase orders. A blanket purchase order should be issued to a vendor under which specified purchases may be made for a certain time period up to a set dollar limit. Generally, blanket purchase orders are used to eliminate the need to issue separate purchase orders for small dollar items of a similar type (e.g., automotive or maintenance supplies) purchased frequently from the same vendor. They are also used for vendors to which recurring monthly payments are made (e.g., contract payments or utility bills). Prior to their approval, the purchasing agent should ensure that blanket purchase orders are within budgetary constraints, necessary, and in compliance with the established policies and procedures. The use of blanket purchase orders should be carefully controlled with established limits, rules and procedures.

During our audit period, the District issued 227 blanket purchase orders for a total of approximately \$3 million. Those blanket purchase orders were charged to at least 66 different account codes with a budget totaling almost \$3.4 million. Therefore, 88 percent of the budget for those account codes consisted of blanket purchase orders.

While the majority of the \$3 million of blanket purchase orders were authorized for appropriate recurring purchases from the same vendors, we found that District officials exercised poor controls over the use of blanket purchase orders. The purchasing agent not only inappropriately approved blanket purchase orders requested by teachers for a maximum of \$75 to the vendor of their choice but also did not monitor the purchases made against those blanket purchase orders. In order to make a purchase, staff must first complete a requisition form and send it to the Business Office for approval. During our audit period, the Business Official sent a budget memo to the staff that stated, among other requirements, that teachers were allowed to have one purchase order to the vendor of their choice for a maximum of \$75. It also stated that staff requisitions that had unknown or “to be determined” vendors, or requests for items from vendors that could be purchased on the BOCES bid list,¹ would not be accepted and the orders would be deleted. The memo did not indicate that the creation of blanket purchase orders would only be approved for routine transactions, contract payments, utility bills, or necessary monthly purchases of goods and/or services. The purchasing agent allowed teachers to purchase items from stores directly instead of purchasing off the BOCES bid list because they preferred to view the items before they purchased them.

Due to the inadequate policies and procedures and because the Business Official did not exercise more control over blanket purchase orders requested by teachers, we reviewed 227 blanket purchase orders requested by staff from various departments in order to determine if established procedures, per the Business Official’s memo, were followed and if blanket purchase orders were used appropriately and reviewed to ensure that they were within budgetary constraints. We found that the purchasing agent did not ensure that the staff was complying with established procedures or blanket purchase orders were necessary and within budgetary constraints. We reviewed all the approved blanket purchase orders and some related invoices for the 2006-07 fiscal year and found:

- Twenty-six of 38 purchase orders issued for teachers exceeded the established \$75 limit, and seven teachers received more than one blanket purchase order. In addition, the purchasing agent approved one blanket purchase order that did not have a specified vendor.
- The purchasing agent approved 14 blanket purchase orders for amounts that exceeded budget lines for a total of \$65,500.

¹ BOCES competitively bids items that are available to its component districts. BOCES creates a list of those bids and makes the list available to its component districts so that those districts can purchase items at a lower cost.

Further, the purchasing agent approved blanket purchase orders for teachers and staff from various departments that included Transportation, the Administration, School Lunch, and Maintenance, to several vendors. We selected two vendors and their related invoices for a two-month period to determine the composition of the items purchased by District personnel. We reviewed 124 items totaling \$846 listed on the vendors' invoices. As a result, we found that employees purchased items such as food (55 instances); kitchen items (12 instances); office supplies (26 instances); cleaning supplies (7 instances); and miscellaneous items (24 instances, which included a leather massage chair for \$140) from those vendors. Normally those items are not purchased under blanket purchase orders at a retail vendor by various teachers. Those types of items are normally purchased in bulk and in a centralized manner. We also found that 13 of those items were available on the BOCES bid list for a lower cost.

According to the purchasing agent, if teachers or staff from other departments made a request for a blanket purchase order from a certain vendor, he processed it without question, and did not compare it to the established procedures.

The delegation of the Board's policy making authority to the Business Official without oversight contributed to the weak control environment that allowed the Business Official to authorize blanket purchase orders to be issued inappropriately and without monitoring the compliance with existing policies and budgetary constraints. As a result, budget lines were overspent. Although the District's general fund budget was not overspent in total, District officials' lack of adequate guidance and oversight creates the risk that moneys may not be available when required for necessary expenditures.

Requests for Proposals

The New York State Legislature amended Educational Law to require school districts, effective July 1, 2005, to use a competitive request for proposal (RFP) process when contracting for the annual independent audit for a period not to exceed five years. The Business Official stated that the District had contracted with the same external auditor since before he began working for the District in 2000, and the District did not use the required RFP process to solicit competition after July 1, 2005. According to the District Clerk, the Board appoints the same external audit firm each fiscal year.

District officials indicated that they contracted with the same external audit firm because the District had always used the firm. By not complying with the RFP requirement to select the independent auditor, the District may not be receiving external audit services at the best possible price.

Recommendations

2. The Board should adopt a comprehensive procurement policy to include guidelines for purchases under the competitive bidding threshold, and ensure that they are followed.
3. The Board should ensure that the purchasing agent establishes adequate procedures that allow for the creation of blanket purchase orders only for routine transactions, contract payments, utility bills or necessary monthly purchases of goods and services.
4. The purchasing agent should improve the controls over blanket purchases and review the requests for blanket purchase orders to ensure that they are in accordance with established policies and are within budgetary constraints.
5. The Board should solicit requests for proposals for its annual financial statement audit as required by law.

Information Technology

An effective system of internal controls to safeguard computerized data includes policies and procedures to minimize the loss or corruption of essential data. Computer data is a valuable resource that District officials rely on for processing financial transactions, maintaining student information, providing computer-based education, communicating via e-mail, accessing the internet, and reporting to State and Federal agencies as well as the public. If the computer 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 severe. Even small disruptions in electronic data systems can require extensive time and effort to evaluate and repair. For this reason, access to computer data systems should be controlled and monitored to reduce the risk of misuse and/or alteration of data resulting in potential financial loss to the District. Additionally, installation of unauthorized software should be prohibited and computer data should be backed up, and a formal disaster recovery plan should be established 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.

District officials did not establish adequate internal controls over information technology to protect electronic data. The District did not have comprehensive policies and procedures that addressed software access rights and network access on the District's computer system. Additionally, District officials have not addressed physical access to a wiring closet. Further, District officials did not develop adequate back-up procedures for non-financial data and a formal disaster recovery plan to guide District personnel in recovering lost data and resuming business operations in the event of a disaster. As a result, the District is at an increased risk of its sensitive information being modified, lost, or improperly disclosed through accidental events or unauthorized use.

Software Access Rights

District officials are responsible for establishing adequate policies and procedures to ensure that access rights to the District's IT resources are appropriately restricted. Effective controls over user access to computer operations restrict authorizations to only those functions needed for individuals to perform their job duties, and ensure that such access prevents them from being involved in multiple aspects of a financial transaction. In this way, software access controls help to preserve the proper segregation of duties. District officials can use edit/change reports, which show changes made to certain data

records such as vendor or personnel information, to help offset control weaknesses resulting from the lack of segregation of duties.

District officials have not established adequate policies and procedures to restrict users' access to only those functions of the computerized financial software that were required for their job duties. We found that the payroll clerk and the Business Official had excessive user rights in the accounts payable and payroll modules of the computerized financial system which gave them the ability to complete most cash disbursements and payroll transactions. Although the District's computerized financial system provided change reports, District officials did not review them.

The Business Official was under the assumption that he did restrict the access rights to himself and the payroll clerk. He thought that the payroll clerk needed access to all aspects of the financial system because "she does a little of everything." Although the Business Official restricted certain access rights to himself, he did not attempt to restrict the access of the payroll clerk. The Business Official and payroll clerk retained access rights to key areas within the payroll and cash disbursements modules that were not needed to perform their duties. For example, the payroll clerk has access to change pay rates; however, that is a duty that is specifically given to BOCES staff to perform.

Because of this internal control weakness, we reviewed one day's audit logs² that pertained to the payroll clerk and one week's audit logs that pertained to the Business Official. We also reviewed payroll edit/change reports for the payroll clerk from July 1, 2007, to April 3, 2008. We found no exceptions from our review of those logs and reports. However, allowing user access beyond what was necessary for employees to perform their duties increased the risk that errors and irregularities could occur and remain undetected and uncorrected.

Network Access Controls

To access a network, users are required to enter a user name and authentication (password). It is essential that password systems be adequately established and safeguarded. In order to protect confidentiality, users should periodically change their passwords. Good internal controls provide for complex passwords containing a combination of upper and lower case letters, punctuation and special characters. Another good control includes locking the user accounts out after a number of incorrect password attempts or a certain period of inactivity. Finally, a process should be in place to prohibit users from installing unauthorized software.

² An audit log is a record of all the changes a user performed in the software, what computer the user made changes from, and the time and dates the changes were made.

We found that the Technology Director did not require users to change their network passwords periodically and did not require complex passwords. Also, user accounts did not lock out after a series of failed log on attempts. In addition, the computers did not lock out users after periods of inactivity. In fact, we found one unattended teacher's machine logged on after school hours. Further, we found that certain users could download and install programs from the internet without authorization. The Technology Director did not have a process to prohibit the installation of unauthorized software.

The Technology Director informed us that because he was in his position for such a short period, he did not have adequate time to consult with management about needed changes.

Due to the weak network access controls, there is an increased risk that an unauthorized user may gain access to data and damage the network and/or applications. Without a system to monitor software installation, coupled with a user's ability to download software, the District is at risk of unauthorized, malicious software installations that could damage the network.

Physical Controls

Maintaining a safe environment over District assets helps to ensure that network assets are protected from loss and destruction. Server rooms and wiring closets should be protected against fire and water damage, and should be climate controlled. Procedures should be in place to ensure that data is backed up (i.e., a copy made) on a routine basis and the back-up copy stored at an environmentally and physically secure off-site location. A disaster recovery plan should also be developed. Typically, a disaster recovery plan involves an analysis of business processes and continuity needs. It may also include a significant focus on disaster prevention. The plan should include precautions to be taken to minimize the effects of a disaster so District officials will be able to either maintain or promptly resume mission-critical functions.

The server room and one of the wiring closets were not adequately protected against fire and water damage and were not in a climate-controlled environment. In fact, in one wiring closet, plaster fell on a piece of wood above the wires; staff had placed the wood above the wires in an attempt to protect them. In addition, the janitors emptied their cleaning supplies in the drain directly next to the wires. If the drain backed up, the hardware could be damaged. We also found that the Technology Director backed up the non-financial data regularly; however, he kept the back-up in the same room as the original data. In the event of a disaster, both the original data and back-up data would be lost. Further, District officials have not adopted a formal

disaster recovery plan. In the event of a disaster, District personnel have no guidelines or plan to follow to prevent the loss of data.

The Technology Director informed us that the physical security of the wiring closet was not sufficient because money was not allocated to repair the room. In addition, the Board did not require the Director to create policies or procedures relating to data backups or disaster recovery.

As a result of the weak physical controls, the District could experience a significant loss of data due to fire and/or water damage and would be unprepared in the event of a catastrophic event since the District may not be able to recover its data and/or promptly resume operations.

Recommendations

6. The Business Official should ensure that user access rights to the computerized financial system are appropriately assigned and adequately segregated, based on job duties.
7. The Technology Director should establish procedures requiring complex passwords, periodic changes of passwords, user account lock out after a certain number of incorrect attempts or periods of inactivity, and the prohibition of unauthorized software downloads.
8. The Technology Director should ensure that network wiring closets are kept in a climate-controlled and protected environment.
9. District officials should ensure that policies that require data backup tapes to be routinely transported to a secure off-site location are in place.
10. The Board should ensure that a formal disaster recovery plan is developed and implemented.

Claims Auditor

The Board, or its appointed claims auditor, must audit and approve each claim against the District before making payment. If the Board appoints a claims auditor, that individual assumes all the powers and duties of the Board to audit each claim to determine whether it is properly authorized and accurate; whether the purchase represents a valid District expense for goods or services; and whether the goods or services were actually received. The Board may delegate the claims audit function by using inter-municipal cooperative agreements, shared services to the extent authorized by law, or independent contractors. However, SED guidance on interpreting regulations³ states it may not be appropriate for a BOCES to provide claims auditing services to its component Districts because the District could have material and significant contract payments to that BOCES. Proper claims auditing procedures include reviewing claims to make sure that there is sufficient supporting documentation and verifying that invoices, purchase orders, and warrants match and have appropriate signatures, in order to ensure that claims are legitimate.

We found that the Board did not appoint a claims auditor in accordance with New York State Education Department regulations and the claims audit function was not working properly. The Board appointed an employee of the DCMO BOCES Central Business Office (CBO) to serve as its claims auditor for the 2006-07 and 2007-08 fiscal years. This arrangement was not appropriate because the District paid the BOCES approximately \$2.3 million during 2006-07. Although the claims auditor signed the warrants to indicate that she had audited the BOCES contract claims, BOCES officials told us that they gave the contract with supporting documentation to the District Business Official for a more thorough audit.

Because of this weakness, we tested three BOCES claims, consisting of 14 supplemental bills to the original BOCES contract,⁴ to ensure they were adequately supported and found that two of those changes were not adequately supported. The Business Official informed us that he was familiar with charges on the BOCES claims in question. BOCES staff indicated that support for the changes was available, but the Business Official did not request that support. We question how the claims auditor and the Business Official signed off to indicate

³ Amendment of the Regulations of the Commissioner of Education can be found at http://www.emsc.nysed.gov/mgtserv/accountability_regs06.htm.

⁴ Supplemental bills are additional, adjusted invoices to reflect any changes from the original contract with BOCES (i.e., additional or cancelled services) that may occur throughout the year.

that they audited this claim when the claim packet did not contain the proper supporting documentation. In addition, the claims auditor did not review the blanket purchases for compliance with existing policies and procedures. As a result, the claims audit function was not working properly.

The Vice President of the Board told us that it was difficult to find someone to audit the claims, and contracting through BOCES was cost effective. She also stated that the District was pleased with the claims audit services provided by the BOCES.

When a BOCES directly provides the claims auditing service to the District using a BOCES employee while providing goods and other services to the same District, as is the case here, the arrangement puts the individual serving as claims auditor in the position of approving significant claims submitted by the BOCES, the individual's employer. Thus, the claims auditor's objectivity, and therefore independence, is compromised. In addition, when the claims audit function is inadequate, as evidenced by the claims auditor's failure to verify the compliance of the District's purchasing practices with existing policies and procedures, taxpayers cannot be assured that the expenditures are made in the best interest of the District.

Recommendations

11. The Board should appoint an independent claims auditor in accordance with State Education Department regulation and good business practices.
12. The claims auditor should review each claim to ensure it complies with existing policies and procedures, whether it is properly authorized and accurate, whether the purchase represents a valid District expense for goods or services, and whether the goods or services were actually received.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

UNATEGO CENTRAL SCHOOL

2641 State Highway 7
Otego, New York 13825-9795
www.unatego.org

Charles A. Molloy
Superintendent of Schools
(607) 988-5038

Deborah Davis
Board of Education, President

Nicholas Rosas
Business Manager
(607) 988-5020

December 5, 2008

To Whom It May Concern:

In the late winter and early spring of 2008 we were visited by a team from the state comptroller's office whose goal was to produce an audit that would have a positive result and that audit findings and recommendations would present local officials with the opportunity to take positive action and to document their efforts to improve operations.

The audit team spent about six weeks and visited nearly all areas of our district and reviewed a myriad of documents and procedures. We are aware of no incident in which they were discourteous or showed disrespect for any staff including those at BOCES. In the same way our entire staff made themselves available at anytime that accommodated the audit team's schedule and were most courteous in touring our facilities, answering questions and providing all requested documents.

We are pleased with the result that upon conclusion of this sizeable and detailed investigation that no incidents of fraud, malfeasance, or improper wasteful spending of district money was found. We attribute this significant feat to the highly competent ethical and trustworthy staff that this Board of Education has provided whose function is to safeguard this school districts assets.

With that said we are eager to review the comptroller's recommendations to strengthen our policies and procedures to even better insure that our district will continue to be safe from possible fraud, malfeasance and the waste of the school districts precious resources. The Board of Education should also be commended for their diligence in reviewing all financial reports and their constant attention to their duties and responsibilities that are inherent in NYS law.

The following paragraphs are our responses to the dozen recommendations the auditors gave us to insure better oversight of the fiscal operation of our district.

Recommendations

- 1. The Board should develop stronger internal controls and establish a better system for the proper management of district financial operations to strengthen its oversight of those operations.**

Response:

- The Unatego Central School recognizes that there are always opportunities to strengthen internal controls. Each year district operations are examined by an external auditor (West & Company) and an internal auditor (Management Advisory Group) that examines our financial statements and operations. Examinations of these Audits will show that issues (internal control or otherwise) are reported to the Board and dealt with by the administration. In addition, the internal claims auditor sends a monthly report directly to the Board listing all compliance issues regarding claims.

Please be advised that any and all actions taken in response to your findings will serve to strengthen the control and management of financial operations.

Recommendations:

- 2. The Board should adopt a comprehensive procurement policy to include guidelines for purchases under the competitive bidding threshold, and ensure that they are followed.**

Response:

- The Board of Education has adopted several policies regarding procurement of goods services:

5410 – Principles of Purchasing
5420 – Competitive Bidding
5421 – Procurement of Goods and Services
5430 – Contracts for Services and Materials

These policies stipulate that procedures to govern purchases below the bidding threshold be established by the administration. While informal purchasing procedures have been established, there are no written procedures in place.

The Board will review all pertinent policies and develop written procedures for purchases under the competitive bidding threshold – However, it should be noted that one of examples cited in the comptroller’s draft report was in error. At the closeout, the audit manager agreed to strike it.

See
Note 1
Page 29

Recommendations:

- 3. The Board should ensure that the purchasing agent establishes adequate procedures that allow for the creation of blanket purchase orders only for the routine transactions, contract payments, utility bills or necessary monthly purchases of goods and /or services.**

Response:

3. The district uses blanket purchase orders as a cost-effective method of purchasing small numbers of supplies not included in the bidding process. This allows teachers to purchase items needed due to changes in class size and also allows them to make small changes in their programs. The majority of these purchase orders were for \$100 or less. However, the adoption of all additional requirements requested in the audit would eliminate any advantage to their use.

See
Note 2
Page 29

Thus the Board will examine your findings for necessary corrective action. But any changes made will be made with cost effective budgeting constraints in mind.

Recommendations:

- 4. The purchasing agent should improve the controls over blanket purchases and review the requests for blanket purchase orders to ensure that they are in accordance with established policies and are within budgetary constraints.**

Response:

4. See response #3

Recommendations:

- 5. The Board should solicit RFPs for their annual financial statement audit as required by law.**

Response:

5. In the spring of 2009 the Board of Education will solicit RFPs for an external auditor. In that solicitation we will seek a firm that has a proven track record in auditing NYS school districts and has established an impeccable record of impartiality. We will comply with the law even though our current auditor has such a record.

Recommendations:

- 6. The Business Official should ensure that user access rights to the computerized financial system are appropriately assigned and adequately segregated, based on job duties.**

Response:

- The Business Official feels that access rights to the financial system are appropriately assigned and segregated, based on job duties. This supported by the fact that the auditors could not find any evidence that any of these rights were misused. Our external auditors have looked at this and are comfortable with it.

See
Note 3
Page 29

Recommendations:

- 7. The Technology Director should establish procedures requiring complex passwords; periodic change of passwords; user accounts lock out after a certain number of incorrect attempts or periods of inactivity; and the prohibition of unauthorized software downloads.**

Response:

- The Technology Director is readily available to help all employees with all security issues. He will also issue, periodically, within safeguards to staff in regards to the need for tight security and to follow district protocol to enforce tight security.

The auditor's recommendation for item 7 covers two separate issues. 1. They recommend setting password policies. 2. They recommend defending network assets by prohibiting unauthorized software downloads.

The Technology Director has the tools to implement a strong password policy and seeks to implement some of the recommendations made by [REDACTED]. Any future password policies adopted will be clearly stated in the AUP (Acceptable Usage Policy).

As of June 2008, the Technology Director had already implemented an Internet Filtering appliance built by [REDACTED]. The Internet filter is configured to properly align with CIPA and has the ability to block unauthorized software downloads. The Technology Director is aware of other external media available to users that could provide a means of installing unauthorized software. To mount defenses, the Technology Director will continue to manage Group Policies and will deploy Computer Technicians to update all security software as needed.

Recommendations:

- 8. The Technology Director should ensure that network wiring closets are kept in a climate-controlled and protected environment.**

Response:

8. The auditor's recommendation for item 8 covers two separate issues. 1. They recommend proper operating conditions for network assets. 2. They recommend physical security for network assets.

The Capital Project will directly address the operation conditions for our network assets. The Technology Director will verify that the rooms containing our network assets meet the climate requirements as stated in the assets owner's manual.

During the Capital Project, many issues of physical security will be handled. Access to mission critical network assets will be restricted to key holders only.

Recommendations:

- 9. District officials should ensure that policies that require data backup tapes to be Routinely transported to a secure off-site location are in place.**

Response:

9. As of October 2008, the Technology has engaged in a Remote Site Back-up service offered by Broome Tioga BOCES. Currently, our [REDACTED] data is sent to a SAN (Storage Area Network) and then off loaded to tape. The tapes are then stored off site.

If the budget permits, the Technology Director will send additional mission critical data to the BOCES SAN.

Recommendations:

- 10. The Board should ensure that a formal disaster recovery plan is developed and implemented.**

Response:

10. The Technology Director will make every effort to ensure that mission critical information is recoverable in the event of a disaster. A plan will be presented to District Officials outlining how the plan should be carried out and how much it will cost. The Technology Director acknowledges the fact that this plan should be realistic and tested often.

Recommendations:

- 11. The Board should appoint an independent claims auditor in accordance with State Education Department regulation and good business practices.**

Response:

11. The district appoints DCMO BOCES as the claims auditor. This has proven to be an extremely effective arraignment and an extremely good business practice as cited by our external auditors. The State Education Department has taken a narrow view of the regulation in issuing their guidance. The Comptroller should support the efforts of districts to make this arrangement possible.

See
Note 4
Page 29

It is our belief that DCMO BOCES auditor is more impartial, ethical, and cost effective than a Unatego School District employee.

Recommendations:

- 12. The claims auditor should review claims to ensure they comply with existing policies and procedures, whether it is properly authorized and accurate; whether the purchase represents a valid District expense for goods or services; and whether the goods or services were actually received.**

Response:

12. The District and our external auditors are satisfied with the audit service provided by DCMO BOCES.

In closing we thank the auditors for their time and their recommendations. Even though there is always an element of risk in loss either due to malfeasance, incompetence or out and out fraud, our existing policies and operations along with the recommendations and action's resulting from this audit will insure that our district will continue its exemplary control of finances and assets.

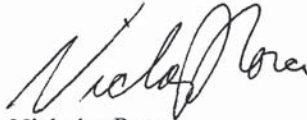
Coincidentally with this audit, our annual internal audit also found no material concerns that needed to be addressed.

We look for continual advice from the comptroller's office and would appreciate periodic updates in regard to necessary polices, required changes in policies or information on exemplary procedures that we could implement locally that would further safeguard our district and make our operation more efficient in this time of economic melt down.

Sincerely,



Charles A. Molloy
Superintendent of Schools



Nicholas Rosas
Business Manager

Deborah Davis
Board of Education, President

Lewis Keyser,
Board of Education, Vice President

Lesley Bohacek
Board of Education, Member

Robert Connor
Board of Education, Member

Richard Downey
Board of Education, Member

Lori Mongillo
Board of Education, Member

Jeffrey Sullivan
Board of Education, Member

APPENDIX B

OSC COMMENTS ON THE DISTRICT'S RESPONSE

Note 1

Based on information provided to us at the exit discussion, we removed certain examples from this finding. We originally found that 14 of the 15 purchases were made without competition. Prior to the exit conference, District officials found documentation of quotes for one of these 14 exceptions. After the exit conference, they found support for two additional purchases. This left 11 purchases that were made without competition. Furthermore, the three purchases that officials found documentation for were audited and approved without this important documentation.

Note 2

The additional requirements requested in the audit are all valid practices that have been shown to reduce risk in the procurement process. As shown in the report, blanket purchase orders were used for approximately \$3 million of purchases. In addition to the large dollar amount involved, many smaller purchases were made by teachers from vendors of choice, without controls to secure competitive prices.

Note 3

The Business Official and payroll clerk had access rights to key areas within the payroll and cash disbursements modules that were not needed to perform their duties. Such access rights, if not restricted, increases the risk that errors and irregularities could occur and remain undetected and uncorrected. The fact that we found no exceptions from our review of audit logs and reports does not mitigate that risk.

We spoke with a partner in the District's CPA firm on December 15, 2008. This individual told us that the firm had not audited this area, but had simply replied to a general question regarding access controls. The firm had not, as stated in the District's response, "looked at this area."

Note 4

As we stated in our audit report, "SED guidance on interpreting regulations states it may not be appropriate for a BOCES to provide claims auditing services to its component Districts because the District could have material and significant contract payments to that BOCES." In our opinion, the District should not contract with BOCES for claims auditing services. Furthermore, as stated in Note 1, claims were audited and approved by DCMO BOCES that did not contain adequate support to show evidence that District procurement policies were followed.

APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard District assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: financial oversight, cash receipts and disbursements, purchasing, and payroll and personal services, 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 objective and scope by selecting for audit those areas most at risk. We selected purchasing, information technology, and claims auditing for further audit testing. We made inquiries and reviewed available procedures relating to these areas.

Purchasing — We tested 15 purchases between \$1,000 and \$10,000 to determine if the District sought quotes. We selected all 227 blanket purchase orders for the 2006-07 fiscal year to determine their appropriateness, if the purchase order procedures were followed and if purchase orders were issued within budget constraints. Further, we selected two vendors and their related invoices for a two-month period to determine the composition of the items purchased by District personnel. We reviewed 124 items totaling \$846 listed on the vendors' invoices.

Information Technology — We compared the Business Official's and payroll clerk's duties with their access rights into the financial system to determine their capabilities on the financial software. We also obtained read-only accounts for an administrator, a student, and a regular staff member to determine their capabilities on the District's network. Finally, we toured the high school to view their server room and one wiring closet to determine if they were physically secured.

Claims Auditor — We tested three BOCES claims, consisting of 14 changes to the original BOCES contract, to determine if they were adequately supported.

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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

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