



# Whitesboro Central School District

## Internal Controls Over Selected Financial Operations

Report of Examination

Period Covered:

July 1, 2006 — July 31, 2007

2008M-11



Thomas P. DiNapoli

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# State of New York Office of the State Comptroller

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## Division of Local Government and School Accountability

July 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, in part, is accomplished 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 Whitesboro Central School District, 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

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# EXECUTIVE SUMMARY

The Whitesboro 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's cash disbursements and payroll are processed through the Business Office primarily by the District Treasurer and payroll clerk, respectively. However, District payroll checks are printed by the Mohawk Regional Information Center at the Madison-Oneida BOCES (MORIC). For the year ended June 30, 2007, the District's cash disbursements and payroll disbursements totaled about \$40.4 million and \$39.6 million, respectively. The District processes all accounting transactions on a standard computerized financial system designed specifically for school districts.

### **Scope and Objective**

The objective of our audit was to determine if controls over selected financial operations were appropriately designed and operating efficiently for the period July 1, 2006 to July 31, 2007. Our audit addressed the following related questions:

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

### **Audit Results**

Internal controls over employment contracts and vacation payments were not appropriately designed which resulted in the District making inappropriate payments totaling \$11,802 to six employees for unused vacation days during our audit period. In addition, we found that the District did not maintain signed individual employment contracts for nine of the 11 employees who had individual employment contracts with the District.

We also identified internal control weaknesses related to the segregation of duties for treasury operations and health insurance billing. If these control deficiencies are not corrected, errors or irregular activities could occur in the future and not be detected.

Finally, the Board has not effectively addressed the safeguarding of computer data by not establishing appropriate control policies and procedures. Adequate and deliberate protection of computer data is necessary for District operations to function effectively and without interruption. We also found weaknesses in the assignment of access rights to the computerized financial system, physical access to hardware and the disaster recovery plan. As a result, the District is at risk of misuse or the loss of computer data and equipment.

### **Comments of District Officials**

The results of our audit and recommendations have been discussed with District officials and their comments 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 initiate corrective action. Appendix B includes our comments on the issues raised in the District's response letter.

# Introduction

## Background

The Whitesboro Central School District (District) is located in the Towns of Whitestown, Schuylers, Deerfield, Marcy and Trenton in Oneida 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 day-to-day management of the District under the direction of the Board.

There are six schools in operation within the District, with approximately 3,670 students and 620 employees. The District's budgeted expenditures for the 2006-07 fiscal year were \$47.4 million which were funded primarily with State aid, real property taxes and grants.

Primarily, the payroll clerk processes the District's payroll with the District Treasurer serving as a backup and the Superintendent certifying the payroll. For the year ending June 30, 2007, total payroll disbursements totaled \$39.6 million.

Business Office personnel, which include the District Treasurer, two full-time employees and a part-time employee, process the District's cash receipts and disbursements.

The District contracts with the Mohawk Regional Information Center at Madison-Oneida BOCES (MORIC) to supply and maintain the computerized financial system. The MORIC is responsible for making user-access changes based on information supplied by the District.

## Objective

The objective of our audit was to determine if controls over selected financial operations are appropriately designed and operating efficiently. Our audit addressed the following related questions:

- Are internal controls over payroll appropriately designed and operating effectively to adequately safeguard District assets?
- Are internal controls over cash receipts and disbursements appropriately designed and operating effectively to adequately safeguard District assets?

- Are internal controls over information technology appropriately designed to adequately safeguard District assets?

**Scope and  
Methodology**

During this audit, we examined the District’s internal controls over payroll, cash receipts and disbursements and the computerized financial system’s application controls for the period July 1, 2006 to July 31, 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 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 initiate 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 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*.

## Payroll

The primary objective of the internal controls related to processing payments for unused leave time is to ensure that District officers and employees are provided with only those amounts to which they are entitled. Board-authorized contracts, employment and collective bargaining agreements, and written policies and procedures provide guidance regarding employee entitlements. It is important for the Board to have clear policies for this process (from approving contracts and collective bargaining agreements to confirming that payments are accurate) to ensure that the District pays only the appropriate entitlements to its employees. Compensation and benefits provided to District employees and administrators must be clearly defined in collective bargaining agreements, terms and conditions of employment agreements, individual employment contracts, or employment letters. Proper segregation of duties is another important component of any internal control system.

We found that internal controls over payroll were not appropriately designed. The District made inappropriate payments to six employees for unused vacation days totaling \$11,802 during our audit period. In addition, we found the District did not have signed individual employment contracts for nine of the 11 employees who had such contracts with the District. Finally, we determined that the District does not maintain adequate segregation of duties over its payroll function. As a result, the District overpaid employees, and could not be sure that it paid some employees the proper amount. The lack of segregation of the payroll clerk's duties increases the risk that errors or irregularities will occur and go undetected and uncorrected.

### **Vacation Payouts**

Documentation of the Board's written authorization of salaries, wages, and fringe benefits by resolution, policy document, or negotiated employee contract is an important control over payroll and fringe benefit expenditures because it communicates the Board's intent to the officers and employees who must execute the District's procedures. The District must not provide officers or employees with any compensation or employee benefits without prior written approval of the Board. To ensure that employees receive only the benefits and compensation that the Board intends for them, all compensation and reimbursable expenditures must be specifically authorized by collective bargaining agreements, individual employee contracts or Board resolutions, which include the appropriate signatures.

In July 1983, by Board resolution, the District indicated that all benefits provided to administrators who are part of the Whitesboro Administrators' Organization Union would automatically extend to central office administrators and supervisors. The benefits include payment for unused vacation days. Two concerns are raised by this situation; first is the practice of cross referencing by Board resolution for those officials other than the Superintendent<sup>1</sup> who have a significant involvement in the negotiation of the collective bargaining agreement (CBA) to which their benefits are tied. We were informed that the Assistant Superintendent for Business was significantly involved in contract negotiations and further, the Assistant Superintendent for Learning occasionally participated in some meetings. Again, the appearance of impropriety exists and for that reason, the practice should be discouraged. The second concern raised is the age of the Board resolution. School Boards members are elected, and the usual term of office for a Board member ranges from three to six years. Board member terms are staggered so that an equal number of members are elected to the Board each year. It is highly unlikely that the membership of the School Board has remained unchanged since 1983; therefore, it is unclear whether the present Board members were aware of this resolution. Additionally, with the exception of the Superintendent's contract, which is usually for a term of more than one year, the Board renegotiates the other administrators' contracts annually. If the Board wishes to provide benefits to the administrators similar to those provided to the Whitesboro Administrators' Organization Union members, it would be more transparent to put the benefits in each individual's contract, which are renewed or renegotiated annually.

Current individual employment contracts, which are negotiated between the individual employees and District, do not specifically state this Board resolution extension of benefits to those central office administrators and supervisors who are not covered by the union agreement. Instead, the employment contracts simply state that vacation days may be carried over into the next fiscal year with the Superintendent's specific written approval. The contracts do not authorize payment of these days.

We found that the District Treasurer, Assistant Superintendent for Learning, Assistant Superintendent for Business, Director of Special

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<sup>1</sup> Education Law, section 1711, prohibits a Superintendent's contract from being based on or tied to the terms of any contract or collective bargaining agreement that the Board of Education has or will enter with teachers or other employees of the school district. The purpose of this amendment was to overcome the potential "perception of conflict of interest when a Superintendent may be involved in contact negotiations with teachers or other employees ... and his/her salary increase is linked to the other contractual agreement."

Services, Director of Information Systems and the Transportation Supervisor all submitted written requests to the Superintendent to be paid for unused vacation days, despite the individual employment contracts not specifying this payout option. The Superintendent subsequently approved payment to these individuals at their daily rate. As a result, the District made payments for unused vacation time during our audit period, July 1, 2006 through July 31, 2007, to these six District employees totaling \$11,802, even though their employment contracts do not provide this option.

We reviewed payroll data for these six employees to determine the accuracy of the daily rates used to calculate the payouts. We also reviewed employee attendance calendars to determine available vacation balances. We found no discrepancies in the calculation of the actual vacation payouts, other than the validity of the payment.

### **Employment Contracts**

Contractual agreements between the District and its employees serve as written acceptance of the terms and conditions mutually agreed upon by both parties. These contractual agreements must be signed by all parties involved.

The District has negotiated individual employment contracts with 11 District and central office administrators and supervisors. We found that nine of 11 contracts did not contain the appropriate signatures of the employees and District officials. Therefore, as mentioned above, we verified the payout amounts for six employees. In addition, we tested the payroll accuracy for eight of the 11 contracts. We found regular payroll amounts for these employees to be in conformance with their contracts. District officials attributed the unsigned contracts to clerical oversight. By not maintaining signed employment contracts, the District does not have a record of the terms and conditions mutually agreed upon by both parties.

### **Segregation of Duties**

An important component of any internal control system is proper segregation of duties, ensuring that no one person controls all phases of a transaction. Concentrating key duties (i.e., authorization, recordkeeping and custody) with one individual with little or no oversight weakens internal controls and significantly increases the risk that errors and/or irregularities might occur and go undetected and uncorrected in a timely manner. Another important component is management oversight.

The payroll clerk was directly responsible for all aspects of preparing, processing and recording of payroll transactions with the exception of adding or deleting employees. Her responsibilities included collecting time sheets for hourly employees, recording the hours worked or salaries paid, modifying hourly rates or salaries

when applicable, processing payroll, reviewing payroll reports, distributing payroll checks and issuing manual checks, when necessary. The payroll clerk was also appointed as the Deputy Treasurer by the Board and was provided with her own signature disk. In addition, the District Treasurer, who serves as a backup to the payroll clerk, was assigned unlimited payroll user access rights enabling her to add employees to payroll and modify salaries.

Given the internal control weakness, we tested the accuracy and propriety of District payroll disbursements. We judgmentally selected 20 employees that posed the greatest risk of being potentially fictitious and traced their existence to key supporting documentation in their personnel files. All the personnel files had the required identification information, and there was evidence of each person's employment at the District. We also tested the payroll records of 20 employees who were paid \$510,114 and received balloon payments and additional checks. All payments tested were supported by appropriate documentation, and no exceptions were noted.

When one person controls all phases of a transaction, without any oversight, there is an increased risk that errors and irregularities will occur and remain undetected and uncorrected.

## **Recommendations**

1. The Business Official should establish oversight procedures to ensure that employees are paid according to their specific employment contracts or collective bargaining agreements.
2. The Board should determine, on an annual basis, which benefits it wishes to provide for administrators and supervisors that are not covered by the Whitesboro Administrators' Organization Union, and write these benefits into each individual's contract.
3. The Board should not tie any contractual benefits to the various collective bargaining agreements for any individual that may, in the course of their normal duties, have the need to be part of the negotiations for the various collective bargaining agreements.
4. The Board should evaluate the inappropriate payments for unused vacation days and determine whether it should seek recovery from the benefited employees.
5. District officials should maintain signed individual employment contracts for all District employees, when applicable.
6. District officials should ensure that no one person can perform all aspects of the payroll disbursement process. At a minimum,

the person who enters new hire information and updates salaries should not have other payroll responsibilities.

7. The Superintendent and Business Official should discontinue providing the payroll clerk with her own signature disk.

## Cash Receipts and Disbursements

One of the Board's responsibilities is the establishment of a system of internal controls. A good system of internal controls is designed to provide reasonable assurance that District assets are properly safeguarded; accounting transactions are authorized, recorded and reported properly; pertinent laws and regulations are complied with; work performed is monitored and reviewed routinely; and operations are efficient and effective. Furthermore, an effective system of internal controls provides for the segregation of duties, so that no one person controls most or all phases of a transaction. Duties must be segregated so that the work of one employee is routinely verified in the course of another employee's regular duties. This reduces the risk that errors and irregularities could occur and go undetected and uncorrected. Where it is not practical to segregate all duties, the Board must provide for compensating controls, such as routine managerial review of the employee's work. When optimal segregation of duties is not possible, at a minimum, the duties and abilities of cash custody, recordkeeping and authorization must be separated.

We identified internal control weaknesses related to the segregation of duties for treasury operations and health insurance billing. If these control deficiencies are not corrected, errors or irregular activities could occur in the future and not be detected.

Treasury – While reviewing the internal control structure in the District's Business Office operations, we found that certain duties were not properly segregated. The District Treasurer deposits and records cash receipts, prepares journal entries, signs payroll and accounts payable checks, and has full access rights to the computerized financial system. Further, the Treasurer was reconciling bank accounts for the first six months of our audit period. In addition, the Treasurer has the ability to execute wire transfers up to \$5 million without a bank confirmation being reviewed by another employee. Although one bank calls the payroll clerk, a second bank calls the Treasurer, directly.

Due to the lack of segregation of duties in these areas, we reviewed all payments made to key officials as well as Board members during our audit period, traced bank account information to Board minutes, tested over \$1 million in wire transfer activity, reviewed Treasurer reports and bank reconciliations and traced cash account information to supporting documentation such as warrants, bank statements,

journal entries and deposit records. Our test of sampled transactions did not identify any discrepancies.

Health Insurance Billing – We found that the employee who prepares the retiree health insurance billings is also collecting payments and distributing receipts to the retirees. This employee maintains and controls the database that records all retiree health insurance activity. Based on this weakness, we tested 20 health insurance billings prepared during our audit period totaling over \$21,000 to determine if billings were traceable to payments and if all payments were accounted for properly. No discrepancies were found in regards to payments received. However, we found that 19 of 20 receipts received for payment did not indicate on the receipt whether payment was made in cash, check or money order. This information is important if discrepancies occur during the reconciliation process.

## **Recommendations**

8. The Superintendent and Assistant Superintendent for Business should segregate the duties of the Treasurer or implement sufficient compensating controls over these duties.
9. The Superintendent and Assistant Superintendent for Business should require that a bank call-back is done for wire transfers completed by the Treasurer to an individual independent of the transfer.
10. The Superintendent and Business Official should segregate the duties of the individual handling retiree health insurance. At a minimum, the person billing retiree health insurance premiums should not be collecting payment from retirees.

## Information Technology

The use of information technology (IT) affects the fundamental manner in which the District initiates processes, records and reports transactions. The extent to which the District uses computer processing in significant accounting applications, as well as the processing complexity, determines the specific risks that IT poses to the District's internal controls. The District's widespread use of IT presents numerous internal control risks, including unauthorized access to and potential loss of data.

An effective system of internal controls to safeguard computerized data includes policies and procedures adopted by the Board to minimize the loss or corruption of essential data. Policies and procedures would limit user access to authorized personnel to protect data from loss by intentional or unintentional manipulation, and to restore data if unavoidably lost or corrupted. This system of internal controls would also include a disaster recovery plan and a routine system of computer backup so that if data is lost in the event of a disaster, it can be quickly restored with minimal inconvenience.

The Board has not effectively addressed the safeguarding of computer data by not establishing appropriate control policies and procedures. Adequate and deliberate protection of computer data is necessary for District operations to function effectively and without interruption. We found weaknesses over the assignment of access rights to the computerized financial system, physical access to hardware and the disaster recovery plan. As a result, the District is at risk of misuse or the loss of computer data and equipment.

### Computer Access Rights

The computerized financial system must allow users only the access levels they need based on their job descriptions and responsibilities. Having access controls in place prevents users from being involved in multiple aspects of financial transactions. A system administrator has the ability to add new users as well as change users' rights. With this ability, administrators are able to control and use all aspects of the software. A good system of controls would segregate the duties of administering access to the computerized financial system and the Business Office function to reduce the risk of misuse of District financial information or resources.

System users must only have computer access necessary to complete their job duties. Any change in user access accounts, including additions, deletions, and modifications must be authorized and approved, in writing, by an appropriate District official. Further,

users' accounts must be deactivated as soon as an employee leaves the District.

The MORIC administers user access and permissions for the District's computerized financial system. The District's Assistant Superintendent for Business emails MORIC to update (add/delete/change) a user's identification access and permissions. We determined that four users at the MORIC, who support the District's system, have full access to the computerized financial system. The software vendor sets up these four individuals with their own sign-on. Although the Assistant Superintendent for Business receives a monthly user activity report, the District's system could be compromised by having four non-school District personnel with full access to all modules of the system. Although access to the District's financial system by MORIC staff is necessary in order for them to provide technical assistance and/or shadow District personnel, access to processing is not necessary.

Based on this control weakness, we examined all payments to the Superintendent, Assistant Superintendent, Treasurer, payroll clerk, accounts payable clerk, as well as other key administrative personnel.<sup>2</sup> We examined payrolls, direct payments and personal reimbursements to ensure that all amounts were properly approved and authorized. No exceptions were noted.

In addition, we reviewed and judgmentally tested user rights of the Business Office staff. We found no discrepancies between the user rights assigned and those that were assigned. We did determine, however, that the Treasurer has full access rights to accounts payable, accounts receivable, the general ledger, and payroll including being able to add a new employee as well as change rates. However, as indicated above we found no improprieties when testing payments made to the Treasurer.

## **Physical Access**

An effective internal control system protects and restricts physical access to IT system components, such as servers. Unrestricted access to the server room is dangerous to the security of the District's computer system because an individual could sign into the network and alter records or physically destroy equipment. This could result in the District expending significant amounts of time and money to correct or repair data and equipment. Security could be enhanced by locking doors at all times, controlling the keys, and documenting the arrival and departure of visitors. Additionally, server rooms must

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<sup>2</sup> Assistant Director of Transportation, Director of Information Technology, Director of Guidance/Pupil Services, Director of Special Programs and Assistant Superintendent for Learning

be located in an adequately ventilated area, ideally with a heating, ventilation and air conditioning (HVAC) system.

We found that the District's IT Department has not established policies or procedures to ensure that the servers, equipment and backups maintained at the District are secured, protected and adequately ventilated. We physically inspected the IT equipment and found network servers and component parts located in seven rooms spread throughout the District. None of the seven rooms were locked. Only one server was secured in a climate-controlled server room. The remaining server rooms were located in unlocked areas such as the computer lab, faculty room, library<sup>3</sup>, storage closet and teacher center. These server rooms did not have proper ventilation because they shared the same ventilation system as the buildings in which they were located and they were located in small, closed quarters. In addition, servers located in the computer lab, faculty room, library and teacher center were in high traffic areas which were easily accessible. The District does not maintain a log of who enters these server rooms. Under the current conditions, it would be difficult for District officials to prevent unauthorized or malicious access to these assets or to identify the party responsible if such access did occur. In addition to the potential loss of costly equipment, server failures result in additional work for IT staff and a decrease in productivity for employees whose work is interrupted.

We also found that only in one instance did the District maintain back-up tapes for educational data at an offsite location. In all other instances, back-up tapes were stored in the server rooms at each of the building directly adjacent to the server.

We were informed that as recent as January 2007, the District Administrative Building server room experienced a loss of approximately \$5,500 in server room equipment as a result of water damage sustained by the rupture of a water pipe directly above the server room. As of early October 2007, the District was still utilizing this room as its current server room.

## **Disaster Recovery Plan**

An effective internal control system for IT requires the adoption of a formal contingency plan. An important component of a formal contingency plan includes a disaster recovery plan to prevent loss of the computer equipment and data, as well as procedures for recovery in the event of a loss.

A Disaster Recovery Plan (DRP), sometimes referred to as a Business Continuity Plan (BCP) or Business Process Contingency

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<sup>3</sup> Two servers were located in the library.

Plan (BPCP), describes how an organization will deal with potential disasters. A plan consists of the precautions taken to minimize the effects of a disaster and to enable the organization to either maintain or quickly resume mission critical functions. Typically, disaster recovery planning involves an analysis of business processes and continuity needs; it may also include a significant focus on disaster prevention.

We found that, although the MORIC had developed a written DRP for an alternative site (other RICs) to restore financial data backup, servers, and critical systems and also procedures to recover operations, the District's Board and IT Department have not established formal policies or procedures to address potential disasters. District personnel have no guidelines or data recovery procedures to prevent the loss of equipment or data. In addition, the plan developed by the MORIC had not been tested. Consequently, in the event of a disaster, District personnel have no specific 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**

11. The IT Department should limit access rights to the computerized financial system to employees or BOCES personnel whose job duties require them to have access to such information.
12. The IT Department should adopt policies and procedures to restrict physical access to all IT hardware and system components. The policies should require the physical components of the IT system to be located in an adequately ventilated area that is protected from unauthorized access.
13. The IT Department should develop a formal disaster recovery plan that coincides with the MORIC plan that would provide guidance on the prevention of loss of computer data and the recovery of computer data.

## **APPENDIX A**

### **RESPONSE FROM DISTRICT OFFICIALS**

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

The District's response letter refers to attachments that support the response letter. Because the District's response letter provides sufficient detail of its actions, we did not include the attachments in Appendix A.

**WHITESBORO CENTRAL SCHOOL DISTRICT**

**67 Whitesboro Street**

**Yorkville, NY 13495**

Arnold L. Kaye  
Superintendent

[alkaye@wboro.org](mailto:alkaye@wboro.org)

Telephone (315) 266-3303

Fax (315) 768-9723

June 24, 2008

Attention: [REDACTED]  
Binghamton Regional Office  
Office of the State Comptroller  
State Office Building  
44 Hawley Street, Room 1702  
Binghamton, NY 13901-4417

Dear [REDACTED]

On behalf of the Audit Committee, Board of Education and the Administration of the Whitesboro Central School District, we would like to thank the staff members from the Office of the State Comptroller for the Audit results and recommendations provided to us as a result of your audit of the 2006 – 2007 Fiscal Year.

See  
Note 1  
Page 24

In careful reflection, we found your audit to be very helpful in that it turned up no discrepancies in financial records, which was reassuring, and brought to our attention further actions for us to consider that could minimize still further the risk of having such discrepancies.

Notwithstanding the above comments, we offer the following response. There are three main areas addressed in your draft report, and our comments will refer to each of these, in turn.

1. Payroll – The section of the report that questions the validity of payment for unused vacation days is contradictory. In fact, the amount of payment to eligible administrators not represented by bargaining agreements covers a 13-month period and actually includes two fiscal years. Typically, audit reports will cover one fiscal year, or July 1, 2006 – June 30, 2007, and, in this case, the payment for the 2006 – 2007 fiscal year was \$4,665.17, as per attachments sent to your attention in our previous correspondence. Further, notwithstanding your suggestions for improving our documentation, all payments were made in conformance with the Board's 1983 resolution and the existing contract with the Whitesboro Administrators' Organization, and are therefore, appropriate, valid and accepted accounting procedures. Furthermore, the District had informed the Comptroller's Office at the May 16, 2008 exit interview that at least one current Board of Education member was part of, and approved, the 1983 Resolution. In addition, District records show that benefits afforded the non-represented administrators were reviewed in an Executive Session held on June 17, 2003, with five current board members in attendance. That being said, your recommendations for updating individual employment agreements so that each reflects all of the benefits specifically relating to that individual position is a recommendation we have started to examine and act on. The only position

See  
Note 2  
Page 24

that would be involved in bargaining the financial provisions of the W.A.O. agreement is the Assistant Superintendent for Business. Your report claims otherwise.

See  
Note 3  
Page 24

2. Cash Receipts and Disbursements – The audit provided us with many useful recommendations, some of which have already been implemented. The observations you made about the segregation of duties and the implementation of additional controls confirm what others have observed and recommended to further reduce the risk of financial discrepancies in our operations. The District’s Audit Committee has reviewed these recommendations and the Administration has begun a process that will address those issues. As we indicated in our meeting on May 16, 2008, we welcome your assistance in locating models for us to use, although we know that you are under no obligation to do so and may view that as beyond your role.

3. Information Technology –

A. Physical Access - The Comptroller’s report states, “Unrestricted access to the server room is dangerous to the security of the District’s computer system because an individual could sign into the network and alter records or physically destroy equipment.”

All of the Whitesboro School District’s crucial and confidential information is housed on the following servers:

- School Tool (5 separate servers) – The student database management system
- GroupWise Server – The district’s email server
- Admin Server – All of the Business office files and other admin building staff files are contained on this server
- SPS Server – Strategic Plan Server
- Time Clock Server
- Semantic Anti-virus Server
- Blackberry server

All of these servers are housed in a climate controlled, windowless and locked room. In the interest of security we would rather not place the location of this server room in a public document; however the Comptroller is welcome to view this site at any time.

See  
Note 4  
Page 24

B. Backups - The Comptroller’s report states, “We also found that only in one instance did the District maintain back-up tapes for educational data at an offsite location. In all other instances, back-up tapes were stored in the server rooms at each of the buildings directly adjacent to the server.”

At the time of the auditor’s visit, we were in a transition phase with our backup system. There were indeed backup tapes stored adjacent to the servers; however those were being phased out and were being utilized as a secondary system.

Our current backup system consists of two units. One unit is a backup server located in one of our educational buildings in a locked windowless room. This unit is used to back up every other server in the district other than the building's server in which it is located. The other backup unit is a tape library located in another educational building in the district which is utilized to backup the one building's server where the main backup is housed. This backup unit is also stored in a locked windowless room. This system has all of our district's servers being backed up to an offsite location within the district. In the interest of security we would rather not place the locations of the backup units in a public document; however the Comptroller is welcome to view this site at any time.

Finally, we would like to note that, throughout the comptroller's report, phrases such as "No exceptions were noted.", "No discrepancies were found ...", and "... we found no improprieties..." were used and should not be overlooked. We consider this to be a tribute to the work performed by the staff of our district.

In the interest of time, the Superintendent of Schools, Arnold L. Kaye, has signed this on behalf of the Board of Education.

Sincerely,



Arnold L. Kaye  
Superintendent of Schools

ALK/mer  
Attachment

C: Robert A. Hess, President, Board of Education  
Glade E. Cook, Jr., Vice-President  
Carol Cirasuolo  
Stephen Pattarini  
Philip A. Russo  
Alan M. Swierczek  
Barbara Wade  
File

## APPENDIX B

### OSC COMMENTS ON THE DISTRICT'S RESPONSE

#### Note 1

Our audit period was July 1, 2006 through July 31, 2007.

#### Note 2

OSC has reviewed the attachments referenced by District officials in their response letter and disagrees with the District's comments that "the section of the report that questions the validity of the total payment amount for unused vacation days is contradictory." Our audit period was July 1, 2006 through July 31, 2007, which includes 13 months. While District officials wrote most audit reports cover one fiscal year, they are not entirely correct. Financial audits generally cover a single fiscal year. However, OSC conducts its audits under performance audit standards, not financial standards. Typically, our audits of school districts have audit periods that cover more than one fiscal year.

Although the District made a payment of \$4,665.17 on July 6, 2007 for the 2006-07 fiscal year, it did not represent all District payments made in our audit period. The \$11,802 referenced in the report represents payments made during our audit period of July 1, 2006 through July 31, 2007. Specifically, the check dates for all payments fall on two dates, July 21, 2006 and July 6, 2007.

#### Note 3

Our report indicates ... "We were informed that the Assistant Superintendent for Business was significantly involved in contract negotiations and further, the Assistant Superintendent for Learning occasionally participated in some meetings." We do not make a distinction between negotiating financial provisions or non-financial provisions. In addition, by our statement, we acknowledge that the Assistant Superintendent for Learning was only occasionally involved in the meetings.

#### Note 4

In addition to the room mentioned in the response, the District has six other rooms where servers are located. We examined all seven rooms during our audit. As mentioned in our audit report, the one server room that District officials have referenced is a climate-controlled windowless room. However, at the time of our site visit in September 2007, we observed that this room was not locked nor did it have a lock on it. In addition, as noted in our report, none of the seven rooms where servers were located was locked and all were located in high traffic areas, which were easily accessible. The District also did not maintain a log of who enters these server rooms. Further, the six server rooms not referenced in the District's letter did not have proper ventilation because they shared the same ventilation system as the buildings in which they were located, and they were in small, enclosed rooms.

## 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. Based on that evaluation we determined that controls appeared to be adequate and limited risk existed in most of the financial areas we reviewed. We then decided upon the reported objectives and scope by selecting for audit those areas most at risk. We selected payroll, cash receipts and disbursements and information technology for further audit testing.

When testing payroll, we focused our testing on Business Administrators and Business Office staff. We reviewed the policies and procedures relevant to payroll processing and interviewed the personnel responsible for processing payroll. On a test basis, we compared payroll records of District employees to the salary and benefit entitlements that were documented in written agreements, personnel records and Board actions. We also compared the payroll records with time and attendance records, and traced input documents (e.g., salary notices, timesheets) through the payroll records to the output documents (e.g., pay registers, cancelled checks, leave accrual statements). On a test basis, we also reviewed payroll records of individuals receiving more than the standard 26 payroll checks in a given year as well as individuals who received balloon payments throughout the year.

When testing cash receipts and disbursements, we selected 100 cash disbursements (claims) for review. These disbursements included general claims, travel related claims, food and beverage purchases for District-sponsored events as well as District credit card purchases. In addition, we tested all payments made to key District officials and tested claims that appeared to be to duplicate vendors. On a test basis, we also reviewed District bank reconciliations, traced cash accounts, tested payments made on weekends and reviewed billings and receivables from District retirees.

When reviewing the internal controls over IT, we reviewed user rights and permissions and judgmentally selected users to determine if their user rights were appropriate. We physically inspected servers and backups stored within several buildings within the District. We conducted interviews with key IT staff in regards to servers and backups in addition to the District's disaster recovery plan.

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## APPENDIX D

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