



# Byram Hills Central School District

## Internal Controls Over Selected Financial Activities

### Report of Examination

Period Covered:

July 1, 2010 — July 31, 2011

2011M-289



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**

April 2012

Dear School District Officials:

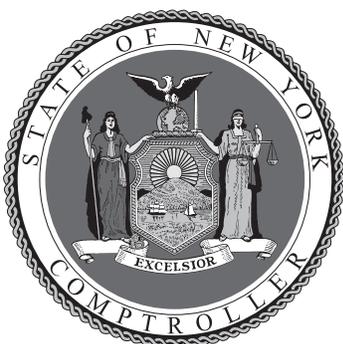
A top priority of the Office of the State Comptroller is to help school district officials manage their districts efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support district operations. The Comptroller oversees the fiscal affairs of districts statewide, 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 Byram Hills Central School District, entitled Internal Controls Over Selected Financial Activities. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the General Municipal Law.

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

Respectfully submitted,

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



## State of New York Office of the State Comptroller

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# EXECUTIVE SUMMARY

The Byram Hills Central School District (District) is located in the Town of North Castle in Westchester County. The District is governed by the Board of Education (Board) which comprises seven elected members. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools (Superintendent) is the chief executive officer of the District and is responsible, along with other administrative staff, for the day-to-day management of the District under the direction of the Board.

There are four schools in operation within the District, with approximately 2,700 students as of June 30, 2011. The District's budgeted expenditures for the 2011-12 fiscal year were approximately \$79 million, which were funded primarily with State aid, real property taxes, and grants.

### **Scope and Objective**

The objective of our audit was to determine whether employees had appropriate access rights to the District's financial system and if District officials implemented proper controls over the purchasing and claims processing functions during the period July 1, 2010 through July 31, 2011. Our audit addressed the following related questions:

- Are employees and officers given an appropriate level of access rights to the District's financial system?
- Are internal controls over purchases made from vendors totaling over \$50,000 and claims processing appropriately designed and operating effectively to adequately safeguard District assets?

### **Audit Results**

The Treasurer, payroll supervisor, and payroll clerk were allowed greater access rights to the District's financial system than were required to effectively perform their job functions. For example, the Treasurer had the ability to add vendors, create and approve purchase orders, and sign checks. With this authority and excessive access rights, the Treasurer had the ability to initiate and conceal inappropriate transactions without the possibility of detection. When we brought this matter to District officials' attention, they reviewed and reduced the access rights of the Treasurer, the payroll supervisor, and the payroll clerk.

The Treasurer was also the Deputy Purchasing Agent during our audit period. These duties were incompatible. When we brought the matter to District officials' attention, effective August 30,

2011, they rescinded the Treasurer's incompatible title of Deputy Purchasing Agent and reduced her access rights to the system. We reviewed payments to 10 vendors totaling approximately \$901,000 to determine the nature of the goods or services and selected three that were not professional services-related for further testing. In addition, we randomly selected 20 items totaling \$312,000 from the same population. We did not find any irregular or fraudulent transactions and, in general, the claims were processed properly. However, we found two isolated instances of issues that District officials need to address to improve controls over the purchasing and claims processing system. We discussed these issues with District officials.

### **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. District officials generally agreed with our recommendations and indicated they planned to initiate corrective action. Appendix B includes our comment on an issue District officials raised in their response.

# Introduction

## **Background**

The Byram Hills Central School District (District) is located in in the Town of North Castle in Westchester County. The District is governed by the Board of Education (Board) which comprises seven elected members. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools (Superintendent) is the chief executive officer of the District and is responsible, along with other administrative staff, for the day-to-day management of the District under the direction of the Board.

There are four schools in operation within the District, with approximately 2,700 students as of June 30, 2011. The District's budgeted expenditures for the 2011-12 fiscal year were approximately \$79 million, which were funded primarily with State aid, real property taxes, and grants.

## **Objective**

The objective of our audit was to determine whether employees had appropriate access rights to the District's financial system, and if District officials instituted proper internal controls over the purchasing and claims processing functions. Our audit addressed the following related questions:

- Are employees and officers given an appropriate level of access rights to the District's financial system?
- Are internal controls over purchases made from vendors totaling over \$50,000 and claims processing appropriately designed and operating effectively to adequately safeguard District assets?

## **Scope and Methodology**

We examined access rights to the District's financial system, and purchasing and claims processing transactions for the period July 1, 2010, through July 31, 2011.

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 is included in Appendix C of this report.

## **Comments of Local 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. District officials generally agreed with our recommendations and indicated they planned to initiate corrective action. Appendix B includes our comment on an issue District officials raised in their response.

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, a written corrective action plan (CAP) that addresses the findings and recommendations in this report must be prepared and provided to our office within 90 days, with a copy forwarded to the Commissioner of Education. 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.

## Access Rights

The use of information technology (IT) affects the fundamental manner in which the District coordinates, processes, records, and reports transactions. Effective controls over users' 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, system access controls help to preserve the proper segregation of duties. Officials can restrict access to some users while allowing greater access to others based on job function. The Board is responsible for adopting policies to ensure that access rights to the District's IT resources are appropriately restricted, and District officials must develop procedures for that purpose. District officials should periodically review user access rights to help ensure access is properly controlled and revise those rights when work conditions change.

The Board has not adopted comprehensive policies to ensure that access to the District's computerized financial data is restricted to only those functions required by individual employees' job duties. In addition, District officials have not implemented access controls to ensure proper segregation of duties within the computer system and to limit access to users based on their job descriptions and responsibilities. Furthermore, District officials did not review access rights to the financial software to monitor employees' use of financial data and adjust access rights as needed.

We reviewed District access rights records for the financial software and found that Business Office staff members had access to aspects of the accounting system that were not a required part of their job function, resulting in inadequate segregation of duties within the computer system. Specifically, the Treasurer, payroll supervisor, and payroll clerk were allowed greater access rights to the District's financial system than were required to effectively perform their job functions. For example, the Treasurer had the ability to add vendors, create and approve purchase orders, and sign checks. With this authority and excessive access rights, the Treasurer had the ability to initiate and conceal inappropriate transactions without the possibility of detection.

The payroll supervisor and payroll clerk were given access rights that allowed them to create employee files, enter earnings, change pay rates and other employee information, generate payrolls, and print checks. With these rights, the payroll clerk could add fictitious

employees or make unauthorized payments to employees without detection.

When we brought this matter to District officials' attention, they reviewed and reduced the access rights of the Treasurer, the payroll supervisor, and the payroll clerk. The Treasurer can no longer initiate computer or manual purchase orders, Business Office requisitions, convert requisitions to purchase orders, or conduct trust and agency payment processing. The payroll supervisor and payroll clerk can no longer maintain employee earnings and update or delete employee information.

## **Recommendations**

1. The Board should adopt and implement comprehensive policies and procedures to limit access rights to the financial software to rights required for job functions.
2. District officials should periodically review access rights and ensure that no employee has access to areas that are not required for his or her job.

## Purchasing and Claims Processing

District officials are responsible for designing internal controls that help safeguard assets and ensure the prudent and economical use of moneys when procuring goods and services. Such controls include adequate segregation of duties. Effective segregation of duties helps ensure that the work of one employee is routinely verified in the course of another's regular duties. It is important that the computerized accounting system reflects this segregation of duties with automated controls, such as restricting user access rights to only those functions that employees require for doing their jobs. When it is not practical to segregate duties, the Superintendent and Board can implement compensating controls — through timely and effective oversight — to help ensure that transactions are properly recorded and reported and that all moneys are accounted for.

The Treasurer also was the Deputy Purchasing Agent during our audit period. Having these two titles enabled the Treasurer to create and execute purchase orders, approve them, and sign the checks. Her rights as an administrator on the District's financial system also allowed her to create cash disbursements and add and update vendor information. This means that the Treasurer had the authority and access rights to create fictitious transactions and approve and pay them with only the claims auditor's review possibly detecting these transactions. Because the claims auditor only reviews printed warrants and claim packages, she might not detect a fictitious transaction run on a separate warrant.

When we brought the matter to District officials' attention, effective August 30, 2011, they rescinded the Treasurer's incompatible title of Deputy Purchasing Agent and reduced her access rights to the system. Therefore, the Treasurer no longer has the ability to perform purchase order functions such as add, update, delete, and increase manual and computer purchase orders.

Due to the segregation of duties issues, we conducted various tests of purchase transactions and claims processing. We reviewed payments to 10 vendors totaling approximately \$901,000<sup>1</sup> to determine the nature of the goods or services and selected three that were not professional services-related for further testing. In addition, we randomly selected 20 items totaling \$312,000 from the same population.<sup>2</sup> Our test of these 20 items included determining whether the purchases complied with District procurement policies and claims processing procedures and were for a proper district purpose.

<sup>1</sup> See Appendix C, Audit Methodology and Standards, for details on our sample selection.

<sup>2</sup> Ibid.

We did not find any irregular or fraudulent transactions and, in general, the claims were processed properly. However, we found two isolated instances of issues that District officials need to address to improve controls over the purchasing and claims processing system. We discussed these issues with District officials.

**Recommendation**

3. District officials should monitor the purchasing function to ensure continued segregation of duties.

## **APPENDIX A**

### **RESPONSE FROM LOCAL OFFICIALS**

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



BYRAM HILLS SCHOOL DISTRICT

*"A great place to learn"*

10 Tripp Lane, Armonk, New York 10504  
914-273-4082, Ext. 5910 Fax: 914-273-2516  
jtaylor@byramhills.org

Jacquelyn L. Taylor, Ed.D.  
Superintendent of Schools

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March 16, 2012

Mr. Christopher J. Ellis, Chief Examiner  
Office of the State Comptroller  
Division of Local Government and School Accountability  
33 Airport Center Drive, Suite 103  
New Windsor, New York 12553-4725

**Re: Draft Report of Examination – Internal Controls Over Selected Financial Activities – 011M-289**

Dear Mr. Ellis:

Please consider this document a response and Corrective Action Plan (CAP) to the Report of Examination of the Byram Hills Central School District for the period of July 1, 2010 to July 31, 2011.

The Byram Hills Central School District embraces the concept of continual improvement planning and acknowledges and accepts the recommendations of the Comptroller's audit. The District is constantly evaluating its business operating systems in order to strengthen and improve the internal control environment while seeking opportunities for greater operating efficiencies.

**Access Rights**

One objective of the audit was to determine if employees had appropriate access rights to the District's financial system. The District modified the access rights after a careful analysis and review with the auditors. The District noted that the Treasurer never had the ability to grant or remove user access for other users. The Lower Hudson Regional Information Center (LHRIC) has and continues to provide security for the District in regards to access rights of our financial system, [REDACTED].

See  
Note 1  
Page 14

The Comptroller recommended that:

1. *The Board should adopt and implement comprehensive policies and procedures to limit access rights to the financial software to rights required for job functions.*
2. *District Officials should periodically review access rights and ensure that no employee has access to areas not required for his or her job*

The District has received a sample policy from the New York State School Boards Association (NYSSBA) for "Computer Resources and Data Management" which is under review by the Board's Policy Committee. This policy and regulation will address limiting access rights to financial software and the periodical review of access rights in compliance with the Comptroller's recommendations.

**Purchasing and Claims**

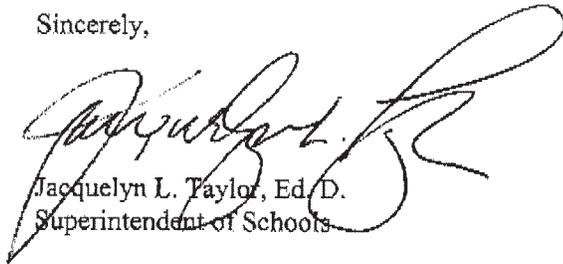
The second objective of the audit was to evaluate the internal controls over purchases made from vendors totaling over \$50,000 and claims processing systems. The audit found no irregular or fraudulent transactions and compliance with District procurement policies and proper claims processing procedures. The Comptroller recommended that:

3. *District officials should monitor the purchasing function to ensure continued segregation of duties.*

The District agrees with the Comptroller's recommendation and recognizes the importance of monitoring the purchasing function and the need for adequate segregation of duties.

In conclusion, the District is appreciative of the efforts and professionalism of the Comptroller's auditing team. The District will continue to embrace its charge to provide outstanding educational opportunities to its children while safeguarding the public's investment in our future.

Sincerely,



Jacquelyn L. Taylor, Ed.D.  
Superintendent of Schools

## **APPENDIX B**

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

Note 1

We deleted the finding relating to the Treasurer providing access to other users from the final report.

## APPENDIX C

### AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess whether the District is operating with proper internal controls and if employees had appropriate access rights to the District's finance system. To accomplish this, we performed an initial assessment based on an on-site risk assessment so that we could design our audit to focus on those areas with the highest risk. Our initial assessment included evaluations of the following areas: purchasing, claims processing, payroll, and information systems. After reviewing the information gathered during our initial assessment, we decided the reported objectives and selected access rights to the financial system, purchasing, and claims processing for further audit testing.

We interviewed appropriate District officials such as the purchasing agent, claims auditor, Treasurer, Chief Information Officer, and the Assistant Superintendent for Business. In addition, we obtained reports of access permissions allowed to certain District employees and officers to the finance system and compared these permissions to the requirements of these individuals' job functions.

We obtained District cash disbursement data and performed analyses. We then manually scanned this data and conducted tests of purchasing and claims processing transactions based on samples and various attributes. From a population of 4,791 check transactions totaling \$38,281,000, we judgmentally selected 10 items totaling \$1,282,088, for which the District paid the vendors more than \$50,000 each during the audit period. We reviewed payments to these vendors totaling approximately \$901,000 to determine the nature of the goods or services. We selected three payments that were not professional services-related for further testing of competitive bidding procedures and claims processing.

In addition, we randomly selected 20 non-payroll related items totaling \$312,000 from the same population by selecting every 100 items and then reducing this population to 20. We tested these 20 items to determine whether they complied with District procurement policies, were for proper District purposes, were adequately supported with proper documentation, contained signed receiving slips, and were audited and approved by the claims auditor. We also determined whether the purchases were approved by the purchasing agent and department head.

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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**AND SCHOOL ACCOUNTABILITY**

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Nathalie N. Carey, Assistant Comptroller

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