



East Quogue Union Free School District

Selected Payroll Practices and Information Technology

Report of Examination

Period Covered:

July 1, 2012 — August 31, 2013

2014M-44



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

June 2014

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 East Quogue Union Free School District, entitled Selected Payroll Practices 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 East Quogue Union Free School District (District) is governed by the Board of Education (Board) which comprises five elected members. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools is the District's chief executive officer and is responsible, along with other administrative staff, for day-to-day District management under the Board's direction.

The District operates one school, with approximately 450 students attending Kindergarten through Grade 6. The District contracts with a neighboring school district to educate 428 additional students who attend Grades 7 through 12. Of the 86 District employees, 33 are non-instructional. The District's budgeted expenditures for the 2013-14 fiscal year are \$22,410,732, funded primarily with real property taxes.

Scope and Objective

The objective of our audit was to evaluate internal controls over payroll and information technology (IT) for the period of July 1, 2012 through August 31, 2013. Our audit addressed the following related questions:

- Are internal controls over non-instructional employees' time, attendance and leave accruals appropriately designed and operating effectively?
- Are internal controls over IT appropriately designed and operating effectively to adequately safeguard District assets?

Audit Results

District officials have not developed and implemented written procedures to address the maintenance and monitoring of leave accrual records. As a result, there is no uniform method used by the District for recording and accounting for employees' accrued leave time. The District secretary uses different procedures for different classes of employees when recording and maintaining employee leave records. The lack of adequate internal controls and procedures over the maintenance of time and attendance and leave accrual records diminishes the reliability of those records and resulted in errors and irregularities in employees' accrual balances without being detected. As a result, some employees may have received benefits to which they were not entitled. For fiscal year 2012-13, we found errors in the leave balances of four of the five full-time custodial staff, totaling 9.3 days. We also found discrepancies in the leave-accrual balances of 23 of the 28 teachers' aides/clerical employees, totaling 38 days.

Certain District employees do not complete, submit and certify timesheets to support hours worked. There were no timesheets for 31 salaried employees, and timesheets for two part-time business office employees were signed by the Business Manager but not the employees. As a result, District officials do not have adequate assurance that employees are only paid for time actually worked.

The Board also needs to improve controls over the District's IT system. The District does not have policies regarding acceptable computer use, e-mail and internet use or breach notification. The lack of a computer use policy increases the risk of inappropriate computer use (either intentional or accidental), which could potentially expose the District to virus attacks or compromise systems and data, including key financial and confidential information.

The District also did not establish controls over user access rights. District officials did not properly assign administrator rights and gave an account clerk access to modules of the financial software package that were not consistent with her job duties. This increases the risk that unauthorized changes to accounting records could occur and not be detected.

Finally, although District officials indicated that the financial software system has the ability to generate audit logs, the logs are not being generated and used to monitor system activities. As a result, District officials' ability to detect and address unauthorized activities is compromised.

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 disagreed with certain aspects of our findings and recommendations in our report but indicated that they planned to implement some of our recommendations. Appendix B includes our comments on the issues raised in the District's response letter.

Introduction

Background

The East Quogue Union Free School District (District) is located in the Town of Southampton, Suffolk County. The District is governed by the Board of Education (Board) which comprises of five elected members. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools is the District's chief executive officer and is responsible, along with other administrative staff, for day-to-day District management under the Board's direction.

The District operates one school, with approximately 450 students attending Kindergarten through Grade 6. The District contracts with a neighboring school district to educate 428 additional students who attend Grades 7 through 12. Of the 86 District employees, 33 are non-instructional. The District's budgeted expenditures for the 2013-14 fiscal year are \$22,410,732, funded primarily with real property taxes.

Objective

The objective of our audit was to evaluate internal controls over payroll and information technology (IT). Our audit addressed the following related questions:

- Are internal controls over non-instructional employees' time, attendance and leave accruals appropriately designed and operating effectively?
- Are internal controls over IT appropriately designed and operating effectively to adequately safeguard District assets?

Scope and Methodology

We examined selected District payroll and IT procedures for the period of July 1, 2012 through August 31, 2013.

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 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. District officials disagreed with certain aspects of our findings and recommendations in our report but indicated that they planned to implement some of our recommendations. 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, 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.

Payroll

District officials are responsible for establishing an internal control system over payroll to ensure that employees are paid only those wages, salaries and benefits to which they are entitled. Good internal controls should include policies and procedures to help provide reasonable assurance that payroll transactions are authorized, recorded and reported properly, and that work performed is monitored and reviewed.

District officials need to improve internal controls over time and attendance procedures and leave accruals for non-instructional employees.¹ We identified discrepancies in 27 of 33 non-instructional employee accrual records maintained by the District. Available records were not sufficient or adequate to verify the leave accrual balances of another five employees. Time and attendance records are not submitted by all employees and are not completed with consistency to capture start/end times and hours worked. Because of these deficiencies, District officials do not have assurance that non-instructional employees are being paid for time actually worked and earning leave accruals to which they are entitled.

Accrual Records

Leave accruals represent time off (vacation, sick, etc.) earned by employees. It is important for procedures to be designed to ensure that leave accruals are earned in accordance with District policies, collective bargaining contracts, employment agreements or Board resolutions, and that leave used is properly deducted from employee leave accrual balances. Proper accounting for employee leave accruals requires the periodic verification of records for leave accruals earned and used. In addition, someone other than an employee should maintain that employee's leave accrual records. Changes and resulting balances entered on leave accrual records should be routinely communicated to each employee to help ensure accuracy.

District officials have not developed and implemented written procedures to address the maintenance and monitoring of leave-time records. As a result, there is no uniform method used by the District for recording and accounting for employees' accrued leave time. The District secretary compiles and maintains an attendance log and a monthly leave accrual spreadsheet which comprises the leave balance records for employees earning and using leave accruals. The leave accrual spreadsheet is neither reviewed nor monitored by anyone other than the secretary; however, the spreadsheet is submitted to the

¹ Teachers' aides/clerical employees, office employees, administrators and custodial/maintenance personnel

Board monthly for approval. The secretary uses different procedures for recording and maintaining different classes of employee leave records. For example:

- Teachers' aides/clerical employees use a call-in system when taking time off and using leave accruals. Special education teachers' aides are required to call the Teacher Registry system when they take time off to ensure that a substitute teacher's aide is found to cover their shifts. Staff from the Teacher Registry system calls or leaves a message with the secretary to inform her as to which employee has taken time off. The secretary uses this information to update the attendance log and the spreadsheet. All other aides and clerical employees call the District office when they use leave accruals. The secretary or other office staff records the absence in the attendance log which is then used to update the leave accrual spreadsheet.
- Office employees and administrators use the honor system to document the use of leave time. Monthly, they submit emails and/or hand written notes to the secretary stating the leave time used during the month. The secretary uses the emails and notes as source documents to update the attendance log and the spreadsheet.
- Custodial/maintenance employees submit timesheets to their supervisor and the payroll department but these timesheets are not used to update the attendance log and leave accrual spreadsheet. Instead, the Secretary uses approved leave request forms or phone messages to update the attendance log and leave accrual spreadsheet. Approximately once per month, the secretary compares the attendance log records to the custodial/maintenance supervisor's typed records of leave used by each employee.

Teachers' Aides/Clerical Employees — We compared attendance logs for fiscal year 2012-13 to the District's records of time earned, leave taken and ending leave accrual balances for 28 teachers' aides/clerical employees. There were discrepancies in the balances of 23 of the employees, totaling a net of 38 days. Errors included 60 days of leave taken without leave accruals charged and 22 days charged to leave accruals exceeding leave time taken, resulting in incorrect leave balances carried forward. For example, one employee had a discrepancy in the employee's favor of 10.5 days. For another employee, seven days were deducted from the leave accrual spreadsheet and ending balance records although the attendance log does not show that vacation was taken.

Office Employees and Administrators — The District did not maintain sufficient documents to account for leave time taken by five office and administrative employees. When we requested documents for our audit, the Secretary told us that she may have verbally verified the days taken. As a result, District officials have no assurance that the leave-time records of these employees are accurate. There is no independent verification for time used by employees using the honor system for charging leave time.

Custodial/Maintenance Employees — We reviewed timesheets submitted and approved for fiscal year 2012-13 for the five full-time custodial staff and compared them to the District's records of time earned, leave taken and ending leave accrual balances. We found errors in the leave balances of four of the five employees, totaling 9.3 days. The errors included leave taken without leave accruals charged and charges to leave accruals exceeding leave time taken, resulting in incorrect leave balances carried forward. For example, we calculated one employee's ending sick leave balance at 30 days, but the District's recorded balance was 34 days. We calculated the same employee's personal leave balance to be zero days while the District recorded the balance at one day, and we calculated the vacation leave balance to be negative one day while the District showed a balance of zero days. The District calculated this employee's hourly rate at \$18.03. Therefore, if the errors are not corrected, the District will pay this employee a minimum of \$865 more than he is entitled to.

District officials' failure to institute adequate internal controls and procedures over the maintenance of accurate time and attendance and leave accrual records diminishes the reliability of those records and results in errors and irregularities in employees' accrual balances. As a result, some employees may have received or may receive benefits to which they were not entitled.

Time and Attendance Records

A good system of internal controls over employee time and attendance consists of written policies and procedures that provide clear guidance for recording time worked. Policies and procedures should ensure that employees' time and attendance records are accurate and complete, and that employees' time records also support their leave accrual records. All employees should complete and sign (certify) a timesheet or use a machine-punched time card documenting time worked, including the starting and ending times of their shift/work day. Timesheets should be verified and signed by employees' immediate supervisors before being submitted for processing. Time and attendance records serve as the basis for employees to receive payment for time worked and authorized paid leave taken. It is important that District officials ensure and monitor employees' compliance with time and attendance policies and procedures.

District officials did not ensure that all District employees completed, submitted and certified their timesheets to support hours worked. This occurred because District officials had no written policies and procedures to ensure that employees' time and attendance records were accurate and complete and that such time records would be used to update and support employees' leave accrual records.

We reviewed employee timesheets for the 14 months ended August 31, 2013 for all non-instructional employees to determine if timesheets were submitted and, if so, were signed by the employees and their supervisors. There were no timesheets or other records of the days or hours worked for 31 of the 38 salaried employees, and timesheets for two part-time business office employees were signed only by the Business Manager, not the employees. In addition, there is no consistency in the format or content of the timesheets used by these two District employees; rather, only the total number of hours worked daily, not the start/end times, were included on the timesheets.

In addition, we found that the school maintenance crew leader, who does not complete timesheets or any other records of the days or hours worked, receives an overtime stipend totaling \$3,000 as part of his contract, even though there is no way to verify if he actually works overtime. Furthermore, during the 2012-13 fiscal year, this employee received \$1,189 of additional overtime, which was calculated at an hourly rate² other than his base pay. When asked about these payments, the Business Manager stated that the overtime stipend is compensation for overtime that occurs on a regular basis while the other overtime payments were considered compensation for "emergency overtime," such as extra time worked during snowstorms. We found no provision in this employee's contract to distinguish between the overtime included and compensated through the stipend and overtime considered to be "emergency overtime." In addition, unless otherwise provided in the contract or employment agreement, overtime is generally calculated based on the employee's base rate of pay rather than a rate of pay that includes stipends. Stipends are usually granted to employees who perform work that is additional to the employee's regular duties and, therefore, is not part of the base pay.

The lack of proper documentation of the time worked by District employees and the lack of supervisory approval of their time records results in District officials not having adequate assurance that District employees are only paid for time worked. The lack of reliable time

² Hourly rate is calculated as (annual salary + overtime stipend + longevity stipend + managerial confidential stipend)/260 days per year = daily rate. Daily rate/8 hours per day = hourly rate.

and attendance records limits the District's ability to maintain accurate payroll records and other records used for retirement reporting and maintenance of leave accrual balances.

Recommendations

1. District officials should:
 - Develop and implement written policies and procedures to address the maintenance of leave time records and ensure that accurate information for time accruals is being maintained and monitored,
 - Require the review and reconciliation of leave-accrual balances and
 - Ensure that all District employees complete, submit and certify timesheets to support the hours worked.
2. The Board should clarify the compensation provisions of the school maintenance crew leader's contract to ensure that his compensation is calculated based on the contract terms.

Information Technology

The District relies on its IT system for accessing the Internet, communicating by email, storing data and recording financial information. Therefore, the District's IT system and the data it holds are valuable resources. If the IT system fails, the results could range from inconvenient to severe. Even small disruptions in IT systems can require extensive effort to evaluate and repair. District officials are responsible for developing written policies and procedures to effectively safeguard IT resources.

District officials have not developed a comprehensive acceptable use policy or procedures to ensure the security of the District's IT system. We found improper assignment of administrative privileges and excessive access rights in the District's financial system. Additionally, although audit logs are available through the financial software, they are not generated and reviewed by District officials. As a result of these weaknesses, the District's IT system and its data are subject to an increased risk of corruption, loss or misuse.

Policies

Computer policies define appropriate user behavior, describe the tools and procedures needed to protect data and information systems, and explain the consequences of policy violations. The governing board should provide important oversight and leadership by establishing computer policies that take into account people, processes and technology; communicating the policies throughout the organization; and ensuring there are procedures in place to monitor compliance with policies. The policies should be provided to District personnel so they can understand them. While computer policies will not guarantee the safety of a computer system, the lack of appropriate policies significantly increases the risk that data, hardware and software systems may be lost or damaged by inappropriate access and use. Possible computer policies include, but are not limited to: breach notification;³ internet, email and personal computer use; use of and access to personal, private and sensitive information; and password security.

³ State Technology Law requires cities, counties, towns, villages and "other local agencies" to develop an information breach notification policy. It is not clear that the Legislature intended school districts to be included within the scope of the term "other local agencies." Nonetheless, even in the absence of a clear statutory requirement, we believe it is a good practice for school districts to adopt such a policy to ensure that affected residents are notified regarding information breaches.

The Board has not adopted and implemented a comprehensive acceptable use policy or procedures to help ensure the security of the District's IT system. The District also does not have policies regarding personal use, e-mail and internet use. Additionally, there are no formal procedures regarding user access rights or a breach notification policy.

Without a comprehensive policy that explicitly conveys the appropriate use of the District's electronic equipment, District officials cannot be assured that users are aware of their responsibilities and there are no consistent standards to which users are held accountable. The lack of a computer use policy increases the risk of inappropriate computer use (either intentional or accidental) which could potentially expose the District to virus attacks or could compromise systems and data, including key financial and confidential information.

Access Rights

Effective controls over access rights to a financial software application should allow users access to only those computerized functions that are consistent with their job responsibilities and should prevent users from being involved in multiple aspects of financial transactions. An individual who has financial system administrative rights can add new users, create and change user access rights, configure certain system settings and override management controls. Accordingly, the financial system administrator should not be involved in the District's financial operations. District officials must ensure that user access rights are appropriate to employees' job descriptions and levels of responsibility and that those rights are promptly adjusted or deactivated when employees' responsibilities change.

The District does not have written procedures for adding, deleting or modifying individual access rights to the District's financial system. District officials did not designate an administrator who is independent of the financial recordkeeping functions. The Business Manager, the senior account clerk typist, the District's accountant and the IT maintenance service provider have full administrative rights to the District's financial software. Therefore, these four individuals have unrestricted access to all functions within the software package, can add new users to the system, can change users' access rights and can make or delete evidence of payments.

In addition, we found that the account clerk has access to modules of the financial software package that are not consistent with her job duties. The account clerk is responsible for processing claims and purchase orders for payment and mailing checks after payments have been audited by the claims auditor. However, she also has access to the payroll and human resource modules of the software system, even though her job duties don't require such access. For example, she

has the ability to add, update and delete employee appointment and earnings information and to post and print payroll checks.

Due to the improper assignment of administrative privileges and excessive user access rights to the financial software, there is an increased risk that unauthorized changes to the accounting records, software security settings and user authorization privileges could occur and go undetected.

Audit Logs

An audit log is an automated mechanism for establishing individual accountability, reconstructing events and monitoring problems. An audit log maintains a record of activity by computer system or application that identifies each person who accesses the system, records the time and date of the access, identifies the activity that occurred and records the time and date of log off. District officials should review audit logs to monitor the activity of persons who access District financial records and to identify problems that may have occurred.

Although District officials indicated that the financial software system has the ability to generate audit logs, the logs are not being generated and used to monitor system activities. As a result, District officials' ability to detect and address unauthorized activities is compromised.

The combination of excessive user access rights and the failure of District officials to monitor audit logs creates an environment where unauthorized individuals could delete or alter financial data, initiate improper transactions or misappropriate funds without detection.

Recommendations

3. The Board should adopt and implement:
 - A comprehensive computer policy for IT operations. This policy should establish guidelines for acceptable use of IT equipment and systems.
 - A breach notification policy.
4. All District personnel should be provided with the employee computer use policy and understand its provisions.
5. District officials should develop written procedures for granting, changing and terminating access rights to the financial software system and assign user access rights based on job duties.
6. The Board should designate someone independent of business office operations to be the financial software system administrator.
7. District officials should routinely generate and review financial software audit logs to monitor user activity and monitor compliance with computer usage policies.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

East Quogue Union Free School District

6 Central Avenue
East Quogue, NY 11942

Les Black
Superintendent

(631) 653-5210
fax (631) 653-9512

April 16, 2014

Mr. Ira McCracken, Chief Examiner
Hauppauge Regional Office
NYS Office Building, Room 3A10
250 Veterans Memorial Highway
Hauppauge, NY 11788-5533

Dear Mr. McCracken:

The District has received and reviewed the results of the audit by the State Comptroller's office.

During the audit process, which lasted several months, the auditor requested documents and reviewed them. The District staff was rarely questioned about the documents that were requested. While the District agrees with some of the auditor's findings and will work to correct those, there were many more findings that the District does not agree with, but was not given the chance to review and challenge those findings until after the report was written and submitted. The District feels this is not an efficient manner of conducting an audit whose purpose is to improve the operations of the District.

See
Note 1
Page 18

See
Note 2
Page 18

CONCERNING PAYROLL PRACTICES

After the audit was finalized, the District was appraised of the auditor's method of reconciling leave accruals and given access to the work papers. The District found many errors on the auditor's part. Specifically, 33 of the 40 days that the auditor found to be in error were actually days that staff members had donated to support a colleague that used all her of sick leave due to an accident. Additionally, the auditor cited errors in the leave balances of 23 of the 28 employees she tested. Most of these were due to the above donations of sick leave. The actual number of errors related to only a few employees.

See
Note 2
Page 18

See
Note 3
Page 18

The auditor concluded that the District needed written policies and procedures concerning attendance and leave records. The district maintains that our contracts serve as policy. The District does acknowledge that the method of recording leave accruals is outdated, and will work towards implementing a computer program to record attendance and leaves. We will also contract with a consultant to monitor and review these records at least semi-annually. This will

See
Note 4
Page 18

be an added cost to the District's 2014-15 appropriations at the expense of services to the students.

See
Note 5
Page 18

The hourly salary of the custodial employee cited by the auditor was significantly less than the auditor reported. This was due to the auditor mistakenly using the overtime rate as opposed to the regular hourly rate. Once again, had this been questioned, the answer could have been provided prior to the report being written. Additionally, the custodian would not be "paid out" for that time. Therefore, the error would be at no cost to the District.

See
Note 6
Page 18

See
Note 7
Page 18

The District has since resolved the issue of timesheets. During contractual negotiations, the District will address the issue of overtime.

CONCERNING INFORMATION TECHNOLOGY

The auditor found that the District had no policies covering Information Technology. In fact, the District has three policies that cover Information Technology, and is always looking to improve that area of oversight. One of the three policies was recently approved by the Board of Education. These policies are available to all staff members.

See
Note 8
Page 19

See
Note 9
Page 19

While the District agrees with the findings concerning access rights to financial software, the auditor did not take into account the make-up of the office staff. Due to the limited staff, the majority being part time, it is a necessity that each staff member is cross trained in all areas to maximize efficiency when one staff member is absent. The District has worked in the past with their independent auditing firm to develop satisfactory mitigating controls to protect the financial software and will continue to develop and implement more stringent controls. The District will work with the Information Technology consultant to develop procedures for granting and changing user access rights to the financial software.

See
Note 10
Page 19

The District will contract with a consultant to monitor the computer audit logs at least semi-annually. This will be another added cost to the District's 2014-15 appropriations at the expense of services to the students.

See
Note 11
Page 19

If you have any questions or concerns, please do not hesitate to contact me at (631 653-6854. I am available Tuesdays and Thursdays.

Sincerely,

Les Black
Superintendent of Schools

LB/lr

APPENDIX B

OSC COMMENTS ON THE DISTRICT'S RESPONSE

Note 1

On multiple occasions, OSC staff interviewed District employees about the District's internal control procedures, made inquiries and asked follow-up questions to clarify issues about the various documents we reviewed during the audit.

Note 2

All preliminary findings were discussed with the Business Manager at the end of our field work and prior to the issuance of the draft report. This was done to give the District an opportunity to provide additional documentation or explanations and to allow for early implementation of corrective action. At that time, the Business Manager did not express concern with the issues we identified.

Note 3

District officials informed us at the exit conference that corrections for donated time had been made to the time accrual records. However, these corrections were made after the end of our scope period and up to one year after the donated time was given to the recipient. In addition, irrespective of those corrections, other errors in the accrual records remain uncorrected.

Note 4

Employee contracts only address entitlement to and timing for earning leave benefits. They do not address procedures for maintaining accurate attendance and leave accrual records, nor do they address what controls need to be implemented to ensure that the accrual records are accurate, complete and timely updated.

Note 5

The implementation of practical routine monitoring procedures to ensure that uniformity in the collection and recording of attendance and time leave records should suffice to correct the issues identified during our audit.

Note 6

Our audit report was revised to reflect the correct hourly rate.

Note 7

We disagree that "the error would be at no cost to the District." Unless the error is corrected, the employee can take additional days off to which the employee is not entitled, resulting in compensating the employee for time not earned.

Note 8

As stated in our report, the District did not have a comprehensive acceptable use policy or procedures in place to help ensure the security of the District's IT system. Additionally, there were no policies regarding employees' personal use of computer assets covering acceptable use of District e-mail and the internet.

Note 9

Except for the student use policy, no other IT policy was presented to us for review during our fieldwork. At the exit conference, we were told that the District has three policies: the aforementioned student use policy, a communication policy and a service and property policy. None of the three mentioned policies include a comprehensive acceptable use policy.

Note 10

Although cross-training is essential and recommended, an inherently higher risk of errors and irregularities exists when a District has limited staff. District officials can reduce that risk and overcome the shortcomings of a weak system of internal controls if additional compensating controls are implemented to mitigate that risk. A simple monitoring or routine review of computer audit logs by management could reduce or mitigate that risk.

Note 11

The decision to either expend additional funds or implement simple compensating control procedures for management to routinely review computer audit logs rests with the Board.

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 management, cash receipts and disbursements, billed receivables, purchasing, payroll and personal services, claims processing, asset management and IT.

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 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 or professional misconduct. We then decided on the reported objectives and scope by selecting for audit those areas most at risk. We selected payroll procedures for leave accrual, time and attendance records of non-instructional employees and IT for further audit testing.

To accomplish the objective of this audit and obtain valid audit evidence, our procedures included the following:

- We performed an initial assessment of internal controls in place for the leave-accrual and time-and-attendance records to determine overall effectiveness. This included interviewing appropriate District officials to gain an understanding of the procedures used.
- We reviewed Board minutes and District policies.
- We obtained and reviewed employment contracts and agreements.
- We tested the accuracy of leave accrual balances for all non-instructional employees who earn leave time and determined if timesheets contained detail and employee and supervisory signatures.
- We obtained all leave accrual source documents submitted by employees and compared them to leave-balance spreadsheets to verify the amount and type of leave time earned and used and the calculation of accrual balances. Source documents included emails from employees, handwritten notes, attendance logs and timesheets.
- We interviewed appropriate District officials to gain an understanding of the IT system and financial software. This included inquiries regarding policies and procedures, user access and audit logs.
- We obtained a list of all users of the financial software and their access rights to determine if their access to the financial software was consistent with their job responsibilities.

We conducted this performance audit in accordance with 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

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