



Spackenkill Union Free School District

Financial Management, Transportation and Information Technology

Report of Examination

Period Covered:

July 1, 2013 — June 24, 2015

2015M-151



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Table of Contents

	Page
AUTHORITY LETTER	1
EXECUTIVE SUMMARY	2
INTRODUCTION	4
Background	4
Objectives	4
Scope and Methodology	5
Comments of District Officials and Corrective Action	5
FINANCIAL MANAGEMENT	6
Budgeting Practices	6
Fund Balance	7
Reserves	8
Recommendations	10
TRANSPORTATION	11
Performance Measures	11
Bus Capacity	11
Fuel Allotment	12
Recommendations	13
INFORMATION TECHNOLOGY	15
Policies and Procedures	15
Web Filters	16
Servers and Wiring Closets	18
Recommendations	18
APPENDIX A	19
APPENDIX B	20
APPENDIX C	24
APPENDIX D	25
APPENDIX E	27
APPENDIX F	28

State of New York Office of the State Comptroller

Division of Local Government and School Accountability

October 2015

Dear 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 Spackenkill Union Free School District, entitled Financial Management, Transportation 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 New York State 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 Spackenkill Union Free School District (District) is governed by the Board of Education (Board), which is composed 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 the District's day-to-day management under the Board's direction.

The District operates four schools, with approximately 1,500 students and 320 employees. The District's budgeted general fund appropriations for the 2014-15 fiscal year were \$42.5 million, funded primarily with real property taxes and State aid.

Scope and Objectives

The objectives of our audit were to examine the District's financial management and its internal controls over transportation and information technology (IT) operations for the period July 1, 2013 through June 24, 2015. To analyze the District's historical and projected fund balance, budget estimates and financial trends, we extended our audit scope period back through July 1, 2010. Our audit addressed the following related questions:

- Did District officials ensure budget estimates and reserves were reasonable and that fund balance was maintained in accordance with statutory requirements?
- Have District officials implemented internal controls and performance measures to effectively and efficiently manage transportation costs?
- Are internal controls over IT appropriately designed and operating effectively?

Audit Results

District officials did not ensure that budget estimates and reserves were reasonable and that fund balance was maintained in accordance with statutory requirements. The District's fund balance at the end of the 2013-14 fiscal year was approximately \$11.9 million, or 28 percent of the 2013-14 budget. The District overestimated expenditures by a total of approximately \$8.4 million from fiscal years 2010-11 through 2013-14. The District also appropriated fund balance totaling \$9.2 million for the four-year period but only used \$68,000 (less than 1 percent). The District placed the year-end fund balance into its reserve funds, which has resulted in accumulation of excess reserves. With the inclusion of the unused appropriated fund balance and unused reserves, the total fund balance was actually in excess of the 4 percent statutory limit, as high as 25 percent of the ensuing year's budget in 2013-14.

In addition, District officials did not implement performance measures to effectively and efficiently manage transportation costs. As a result, we found that up to three contracted buses could be eliminated, which would generate potential cost savings of \$147,451 annually. Also, the Transportation Supervisor did not correctly calculate the fuel allotment to the transportation vendor (Contractor), resulting in overpayments totaling \$3,101 in fiscal years 2013-14 and 2014-15. Furthermore, the District did not recoup \$5,841 for excess fuel given to the Contractor in 2013-14. As a result of these deficiencies, the District has incurred unnecessary transportation costs.

District officials need to improve internal controls over IT assets. The District's acceptable use policy has not been updated to include guidance for the use of personal devices on the District's network and policies and procedures have not been established for computer security, disaster recovery, data backups and security awareness training. In addition, our review of Internet activity showed that 274 unique domain names¹ were accessed but were not educational in nature as required by the District's acceptable use policy. Lastly, we found that physical controls were lacking because water pipes were above the main servers in the server room at the high school, and there was a recent leak that left water on the floor directly next to one of the shelves that housed a server. These weaknesses increase the risk that District equipment and data could be lost or 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 B, have been considered in preparing this report. District officials generally agreed with our recommendations and indicated they plan to initiate corrective action. Appendix C includes our comments on issues District officials raised in their response.

¹ The domain name is a unique name that identifies a website.

Introduction

Background

The Spackenkill Union Free School District (District) is located in the Town of Poughkeepsie, Dutchess County. The District is governed by the Board of Education (Board) which is composed of five elected members. The Board is responsible for the general management and control of the District's financial and educational affairs, including developing, monitoring and controlling the budget. The Superintendent of Schools (Superintendent) is the District's chief executive officer and has the responsibility, along with other administrative staff, for the District's day-to-day management under the Board's direction. The Treasurer is responsible for administering District finances and preparing accounting records and reports.

The District operates four schools, with approximately 1,500 students and 320 employees. The District's budgeted general fund appropriations for the 2014-15 fiscal year were \$42.5 million, funded primarily with real property taxes and State aid.

The District comprises six square miles and provides transportation to the students within its boundaries. The District contracted with a transportation vendor (Contractor) to provide additional transportation services for the 2013-14 and 2014-15 fiscal years. The District's Transportation Supervisor is responsible for creating and analyzing bus routes and for the Transportation Department's day-to-day operations. The District's budgeted transportation appropriations for the 2014-15 fiscal year were approximately \$1.4 million.

The District uses network and web resources to support certain business operations, such as performing online banking transactions and maintaining personal, private and sensitive information including student records. The District's Director of Information Technology is responsible for managing the security of this network and the data it contains. The Board is responsible for establishing policies to help ensure that security over the network and data is maintained.

Objectives

The objectives of our audit were to examine the District's financial management and its internal controls over transportation and information technology (IT) operations. Our audit addressed the following related questions:

- Did District officials ensure budget estimates and reserves were reasonable and that fund balance was maintained in accordance with statutory requirements?

- Have District officials implemented internal controls and performance measures to effectively and efficiently manage transportation costs?
- Are internal controls over IT appropriately designed and operating effectively?

Scope and Methodology

We examined the District’s financial management and internal controls over transportation and IT operations for the period July 1, 2013 through June 24, 2015. To analyze the District’s historical and projected fund balance, budget estimates and financial trends, we extended our audit scope period back through July 1, 2010. Because of the sensitivity of some information, certain IT vulnerabilities are not discussed in this report but have been communicated confidentially to District officials so they could take corrective action.

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 D 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 B, have been considered in preparing this report. District officials generally agreed with our recommendations and indicated they plan to initiate corrective action. Appendix C includes our comments on issues District officials raised in their response.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of General Municipal Law, Section 2116-a (3)(c) of New York State 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.

Financial Management

The Board is responsible for making sound financial decisions that are in the best interests of the District, the students it serves and the taxpayers who fund the District's programs and operations. Sound budgeting practices based on accurate estimates, along with prudent fund balance² management, help ensure that the real property tax levy is not greater than necessary. According to New York State Real Property Tax Law (RPTL), the amount of fund balance that the District can retain may not be more than 4 percent of the ensuing fiscal year's budget. Districts may use the remaining resources to lower real property taxes or establish reserves to restrict a reasonable portion of fund balance for a specific purpose.

From fiscal years 2010-11 through 2013-14, District officials consistently overestimated budget appropriations. As a result, District officials generated operating surpluses that caused total fund balance to reach \$11.9 million by June 30, 2013, which was 28 percent of the 2013-14 fiscal year's budget. To reduce fund balance, District officials transferred moneys to the District's reserves, which resulted in the reserves being overfunded by \$6.3 million. In effect, this circumvented the 4 percent statutory limit. Furthermore, District officials did not include the transfers to the reserves in the budgets. Due to this lack of transparency, the taxpayers were deprived of the opportunity to provide input each year when District officials decided not to return surplus funds to the taxpayers.

Budgeting Practices

District officials are responsible for preparing and adopting reasonable budgets based on historical or known trends for appropriations and revenues. In preparing the budget, it is essential that District officials use the most current and accurate information available to ensure that budgeted appropriations are reasonable and not overestimated.

We reviewed the District's general fund budget for fiscal years 2010-11 through 2013-14 and found that District officials overestimated expenditures by a total of approximately \$8.4 million (6 percent), as shown in Figure 1. Certain line items made up the majority of the overestimations for the four-year period. For example, the District expended less than anticipated for employee benefits (\$1.2 million, or 6 percent), salaries (\$3.9 million, or 14 percent), and BOCES services (\$883,000, or 24 percent). District officials could have estimated these expenditures more realistically by referring to available information, including contracts and collective bargaining agreements, prior to preparing the budget.

² Fund balance represents resources remaining from prior fiscal years.

Figure 1: Overestimated Expenditures					
	2010-11	2011-12	2012-13	2013-14	Four Year Total
Estimated Expenditures	\$38,187,332	\$39,513,607	\$40,759,714	\$41,892,076	\$160,352,729
Actual Expenditures	\$35,953,330	\$37,488,950	\$38,873,610	\$39,627,050	\$151,942,940
Overestimated Expenditures	\$2,234,002	\$2,024,657	\$1,886,104	\$2,265,026	\$8,409,789

District officials told us that they create the budget based on the prior year’s budget. They referred to this as a rollover budget. Using this process, District officials are not taking actual results or trends into consideration when creating the budget. As a result, the Board adopted inflated budgets each year, which led to excessive fund balance levels and higher property taxes than necessary.

Fund Balance

A district may retain a portion of fund balance but must do so within the limits established by RPTL. Fund balance represents resources remaining from prior fiscal years. Currently, the amount of unrestricted fund balance that the District can retain may not be more than 4 percent of the ensuing fiscal year’s budget. Districts may use the remaining resources to lower real property taxes or establish reserves for a specific purpose.

At the end of the 2013-14 fiscal year, the District’s total fund balance was approximately \$11.9 million, or 28 percent of the 2013-14 budget. This occurred because the Board consistently overestimated expenditures and underestimated revenues, which resulted in increasing levels of fund balance, as depicted in Figure 2.

Figure 2: Fund Balance				
	2010-11	2011-12	2012-13	2013-14
Beginning Fund Balance	\$10,320,523	\$11,520,232	\$11,757,805	\$11,955,848
Prior Period Adjustment	\$1,114,001	(\$279)	\$0	\$0
Operating Surplus/(Deficit)	\$85,708	\$237,852	\$198,043	(\$68,283)
Year-End Fund Balance	\$11,520,232	\$11,757,805	\$11,955,848	\$11,887,565
Percentage of Ensuing Year's Budget	31%	31%	30%	28%
Less: Fund Balance Reserved	\$7,541,827	\$7,709,689	\$7,425,904	\$7,739,422
Less: Appropriated Fund Balance	\$2,199,768	\$2,300,000	\$2,480,000	\$2,300,000
Less: Encumbrances	\$198,093	\$117,727	\$374,260	\$148,441
Unassigned Fund Balance at Year End	\$1,580,544	\$1,630,389	\$1,675,684	\$1,699,702
Percentage of Ensuing Year's Budget	4%	4%	4%	4%

During fiscal years 2010-11 through 2013-14, the Board appropriated a total of \$9.2 million in fund balance to finance operations but used only \$68,283, less than 1 percent. The amounts appropriated were not used in three of the four years because expenditures were overestimated. The District experienced an operating deficit of \$68,283 in 2013-14, which it financed with 3 percent of the \$2.4 million the Board appropriated for use in that year, as depicted in Figure 3.

Figure 3: Appropriated Fund Balance Used				
	2010-11	2011-12	2012-13	2013-14
Appropriated Fund Balance	\$2,255,598	\$2,199,768	\$2,300,000	\$2,480,000
Operating Surplus/(Deficit)	\$85,708	\$237,852	\$198,043	(\$68,283)
Actual Appropriated Fund Balance Used	\$0	\$0	\$0	\$68,283
Percentage of Appropriated Fund Balance Actually Used	0%	0%	0%	3%

With the inclusion of the unused appropriated fund balance and unused reserves, the total fund balance was actually in excess of the 4 percent allowed, ranging between 23 and 25 percent of the ensuing year's budget, as shown in Figure 4.

Figure 4: Recalculated Unrestricted Fund Balance				
	2010-11	2011-12	2012-13	2013-14
Unrestricted Fund Balance at Year End	\$1,580,544	\$1,630,389	\$1,675,684	\$1,699,702
Add: Unused Appropriated Fund Balance	\$2,255,598	\$2,199,768	\$2,300,000	\$2,411,717
Add: Excess Reserves ^a	\$5,738,220	\$5,973,419	\$5,851,071	\$6,352,705
Unrestricted Fund Balance	\$9,574,362	\$9,803,576	\$9,826,755	\$10,464,124
Unrestricted Fund Balance as a Percentage of the Ensuing Year's Budgeted Appropriations	24%	24%	23%	25%

^a See Figure 5 in the section titled "Reserves."

As a result of the significant increase in fund balance as shown in Figure 4, real property taxes have been higher than necessary. Furthermore, adopting unrealistic budget estimates for revenues and expenditures and appropriating fund balance that will not actually be used to finance operations diminishes the transparency of the budget process.

Reserves

Fund balance may be restricted for particular purposes or appropriated to reduce the real property tax levy. When District officials establish reserve funds for specific purposes, it is important that they develop a plan for funding the reserves and determine how much should be

accumulated and how and when the funds will be used to finance related costs. School districts should maintain reserve balances that are reasonable. Funding reserves at greater than reasonable levels essentially results in real property tax levies that are higher than necessary.

The District had seven reserve funds totaling \$7,739,422 at the end of the 2013-14 fiscal year: workers' compensation, unemployment, insurance, retirement contribution, tax certiorari, capital and compensated absences. We reviewed the Board resolutions that established each reserve, with the exception of the workers' compensation and insurance reserves, as the District was unable to provide them to us. While each appear to be properly established, the District generally transfers surplus funds at year-end as a method to fund the reserves. District officials made these transfers without including them in the District's budgets, resulting in a lack of transparency.

The District budgets for and levies taxes to fund workers' compensation, unemployment and retirement expenditures, paying for these expenditures from the annual operating budget.³ It is unclear why these reserves are necessary when District officials are not using them to pay for associated expenses. The insurance and compensated absences reserves have not had any activity during the audit period. Their lack of use indicates that the District has no current need to restrict these funds.

The tax certiorari reserve is intended to pay for judgments and claims in tax certiorari proceedings. New York State Education Law (Education Law) requires that funds placed in this reserve be used only for tax certioraris arising from the tax roll of the year in which the moneys are placed in the reserve. Education Law also provides that the total of the moneys held in this reserve shall not exceed that amount which might reasonably be deemed necessary to meet anticipated judgments and claims.

The District's potential liability for tax certiorari petitions filed is \$10,325,017. District officials fund the tax certiorari reserve with the premise that claims will be settled at approximately 50 percent. We reviewed the list of tax certiorari claims and identified petitions that were on the list twice. We calculated that, for 2010-11 through 2013-14, judgments were settled at an average of 13 percent. Based upon the 13 percent settlement rate, we estimate the potential liability

³ District officials informed us that they do not budget for unemployment expenditures. However, our review of the adopted budget showed that the District did, in fact, budget for unemployment expenditures in fiscal years 2010-11 through 2012-13.

for 2013-14 was about \$1.2 million. Therefore, the tax certiorari's reserve may be overfunded by as much as \$3.9 million.

We calculated that, for fiscal year 2013-14, the District was retaining \$6.4 million in reserves that appeared to be excessive, as illustrated in Figure 5.

Figure 5: Excess Reserves				
	2010-11	2011-12	2012-13	2013-14
Tax Certiorari Reserve	\$4,550,265	\$4,434,037	\$3,974,562	\$3,962,095
Retirement Contribution Reserve			\$246,135	\$800,915
Reserve for Compensated Absences	\$625,000	\$625,000	\$625,000	\$625,000
Insurance Reserve	\$250,000	\$371,537	\$371,537	\$371,537
Workers' Compensation Reserve	\$204,783	\$329,783	\$329,783	\$329,783
Unemployment Reserve	\$108,172	\$213,062	\$304,053	\$263,375
Total Excess Reserves	\$5,738,220	\$5,973,419	\$5,851,070	\$6,352,705

District officials have consistently adopted budgets that generated operating surpluses. District officials have chosen to retain the excess funds rather than return them to the taxpayers and have done so with a lack of transparency in the budget process. As a result, the Board and District officials have withheld significant funds and levied unnecessary taxes.

Recommendations

The Board should:

1. Develop budget projections for appropriations that consider prior years' financial results and only appropriate the amount of fund balance that is actually needed to cover expenditures.
2. Review reserves to determine if the amounts reserved are necessary and reasonable. To the extent that they are not, reserves should be reduced to levels in compliance with statutory restrictions.

District officials should:

3. Develop a plan to use the surplus fund balance identified in this report in a manner that benefits District taxpayers and is transparent.

Transportation

A key responsibility of any school district is to develop and manage services, programs and resources as efficiently and economically as possible. District officials have not developed formal performance measures to identify how the District can optimize operations and lower transportation costs while continuing to meet students' needs. We determined that the District could save money by reducing excess capacity on buses and combining runs. If changes are made, the District could save up to \$147,450 annually. In addition, the District was not correctly calculating the fuel allotment to the Contractor, resulting in overpayments totaling \$3,101 over the past two fiscal years. The District also did not recoup moneys owed from the Contractor totaling \$5,841. As a result of these deficiencies, the District has incurred unnecessary transportation costs.

Performance Measures

District officials need objective performance and cost data to be able to evaluate whether the District is operating as efficiently and economically as possible and, if not, where cost savings can be achieved. We found that District officials do not have all the information they need to assess transportation operating efficiency or identify cost savings opportunities because they have not developed performance measures to determine whether transportation operations are economical. For example, the District has not set parameters within the Transportation Supervisor's job duties to ensure that a minimum capacity level on the buses is met. District officials told us that they have taken steps to increase efficiency and decrease transportation costs, such as discussing the routing and ridership of the buses; however, the District has not implemented formal goals and benchmarks. By developing performance measures for transportation and evaluating transportation results against benchmarks set by the performance measures, the District can help ensure that transportation operations are efficient and economical.

Bus Capacity

The District is responsible for providing safe, economical and efficient pupil transportation. District officials should annually reevaluate the design of bus routes and assign buses in the most efficient way. Whenever possible, buses should be fully occupied. Evaluating performance measures for efficiency, such as those for school bus capacity, will help ensure that the District assigns the maximum number of students to buses so it can reduce the number of routes needed. By basing the number and size of the buses used on the District's actual needs, the District can reduce the scope of its contracts and ensure that it is not paying for excessive buses.

In addition to providing its own transportation, the District contracted with a vendor to provide nine buses for home-to-school transportation, sports and field trips for the 2014-15 school year at an annual cost of \$442,353, or about \$49,150 per bus. Morning bus runs include transportation routes for high school, middle school and elementary school students. Buses drop off students at the closest elementary school first before taking the remaining students to the other elementary school. In the afternoon, the District separates the elementary school runs so that certain buses are dedicated to each elementary school. However, when afternoon elementary runs are separated, it creates the potential for buses to drop off students from the different schools on the same streets, which duplicates drop-off points.

The Transportation Supervisor receives information such as routing data sheets, ridership counts and mileage for each route from the drivers. However, the Transportation Supervisor does not perform a formal analysis of bus capacity to actual ridership and does not enter the information into the District's transportation software.

We performed an analysis of bus capacity to actual ridership on the contracted buses to determine if the District could eliminate contracted buses. The District has excess capacity on each of its bus routes, as illustrated in "Excess Bus Capacity Analysis" in Appendix A of this report. With no changes to the current routes, the District could achieve annual cost savings of \$49,150⁴ by eliminating one bus. If the District combined the elementary afternoon runs, it could increase potential annual cost savings to about \$147,450 by eliminating three unnecessary buses.

The Transportation Supervisor told us that the District keeps the elementary afternoon runs separate because students are released at the same time in the afternoon for both buildings, creating a situation where students could be possibly unsupervised at one building if the buses are picking up students at the other building first. District officials also told us that the Contractor is experiencing staffing problems, resulting in the Transportation Supervisor having to perform some of the bus runs herself. However, if the District were to eliminate excess buses, fewer drivers would be needed.

Fuel Allotment

The transportation contract requires the District to provide fuel to the Contractor at a rate of one gallon of diesel fuel per seven live⁵ miles driven. The District pays for fuel delivered directly to the Contractor's

⁴ The total amount of the 2014-15 transportation contract was \$442,353. We divided this amount by the nine buses to arrive at a per-bus rate of \$49,150.

⁵ Live miles include those miles from the point of first pick-up to the last point of drop-off for each route.

fuel tank. The Contractor is not allowed to order fuel without first obtaining approval from the District. If the District provides too much fuel to the Contractor in one year, it can deduct the value of the fuel at the time of delivery from the monthly payment.

The Transportation Supervisor is responsible for calculating and tracking the Contractor’s annual fuel allotment. For the 2013-14 and 2014-15 fiscal years, the Contractor’s fuel allotment was 9,800 gallons of diesel fuel. However, the Transportation Supervisor could not provide documentation as to how that number was arrived at and uses a calculation from several years ago adjusted for the current year. The Transportation Supervisor was unaware of where the agreed-upon rate for the fuel allotment was documented and how much the rate was. Additionally, fuel is delivered to the Contractor without prior approval as required, and the Transportation Supervisor only becomes aware that a delivery was made when she receives an invoice from the supplier.

We recalculated the fuel allotments for the 2013-14 and 2014-15 school years. The District should have allotted 9,231 gallons of fuel to the Contractor for the 2013-14 school year and 9,331 gallons in the 2014-15 school year. However, because the District allotted 9,800 gallons for each year, it resulted in an overpayment to the Contractor totaling \$3,101 for both years.

Figure 6: Calculation of Fuel Allotment and Overpayment

Year	Total Annual Mileage	Rate (Miles/ Gallon)	Calculated Fuel Allotment (Gallons)	District- Provided Fuel Allotment	Variance Between Allotment and Calculation	Average Price/ Gallon	Amount Overpaid
2013-14	64,618	7	9,231	9,800	569	\$3.15	\$1,789
2014-15	65,314	7	9,331	9,800	469	\$2.80	\$1,312
Total							\$3,101

Furthermore, the District actually provided the Contractor with 11,590 gallons of diesel fuel in 2013-14, 1,790 gallons above the agreed-upon 9,800 gallon allotment. This excess fuel, valued at \$5,841, should have been deducted from the District’s 2014-15 monthly payments; however, the District has not deducted this amount from the payments.

Recommendations

District officials should:

4. Develop comprehensive performance measures to evaluate whether the District’s transportation operations are efficient and then use these standards to improve the efficiency of the District’s transportation operations.

5. Consider combining the elementary afternoon runs to maximize the student capacity on each bus and reduce the number of contracted buses.
6. Recoup the overpayment to the Contractor for the 2013-14 fuel allotment overage.
7. Ensure that the Transportation Supervisor is trained to use the fuel management software.

The Transportation Supervisor should:

8. Perform a formal, written analysis of bus capacity to actual ridership on contracted buses.
9. Review the terms and conditions for the fuel allotment in the bid specifications and perform a formal, written calculation of the fuel allotment annually.
10. Ensure that controls are in place in the fuel management system by periodically reviewing usage reports for any unusual activity.

Information Technology

District officials are responsible for designing internal controls over IT resources that include policies and procedures designed to protect software, hardware and data from loss or misuse due to errors, malicious intent or accidents. It is essential that IT management has written policies and procedures in place to safeguard IT assets, such as acceptable use, disaster recovery, data backup and security awareness training. In addition, restricting potentially harmful Internet websites through filtering is important to protect IT assets from potential harm and other vulnerabilities that exist outside of the District's network. District officials must also ensure that the District's IT assets are physically secured from environmental hazards that could possibly damage or destroy equipment.

District officials need to improve controls over IT assets. The District's acceptable use policy does not include guidance for the use of personal devices on the District's network. In addition, District officials did not establish adequate IT policies and procedures for disaster recovery, data backup and security awareness training for users. We also found that out of 274 unique domain names⁶ accessed by District users, 269 were not for educational purposes as required by the District's acceptable use policy. Further, we found water pipes directly above the District's servers, including water on the floor next to one of the server shelves from a recent leak. These weaknesses increase the risk that District data could be lost or compromised.

Policies and Procedures

Policies and procedures over IT are part of the internal control structure and provide criteria and guidance for a school district's computer-related operations. Effective protection of computing resources and data includes the adoption of an acceptable use policy that informs users about appropriate and safe use of District computers, a disaster recovery plan with guidance for minimizing loss and restoring operations should a disaster occur and performing regular offsite backups of District data. The Board should periodically review and update these policies as necessary to reflect changes in technology or the District's computing environment. In addition, computer users need to be aware of security risks and be properly trained in practices that reduce the internal and external threats to the network.

Acceptable Use – Although the District has established an acceptable use policy, it does not address the use of personal devices on the District's network. Therefore, there is no requirement in place to ensure that personal devices are used in an appropriate and secure

⁶ The domain name is a unique name that identifies a website.

manner. This could potentially expose the District to malicious attacks or compromise systems and data.

Disaster Recovery – The District does not have a comprehensive disaster recovery plan to address potential disasters. The IT Director told us that the District is in the process of acquiring more data storage to support disaster recovery at the middle school and will then formalize a disaster recovery plan. Without a formalized disaster recovery plan, in the event of a disaster, District personnel have no guidelines or plan to follow to help minimize or prevent the loss of equipment and data or to appropriately recover data.

Data Backup – The District has not developed comprehensive data backup policies and procedures. As a result, not all of the District's data is backed up. The technology department performs incremental backups nightly and a full backup every Friday; however, backups only include the critical information to maintain District operations. If a disaster were to occur, District officials and staff could possibly lose other important documents such as Board minutes and resolutions, communications and some student information. Such a loss could significantly reduce productivity and require a greater recovery time when full backups are not performed.

Security Awareness Training – District officials have not developed a policy to ensure that network users are provided with IT security training so that they understand the security measures designed to protect the District's network and their responsibilities for protecting the District's network. Creating security awareness through training also helps to ensure that everyone understands his or her individual responsibilities. By not providing such training, the District's IT assets are more vulnerable to loss and misuse because network users are not aware of security risks and practices needed to reduce those risks.

Furthermore, when we last audited the District in 2008,⁷ its corrective action plan indicated that a disaster recovery plan and formal data backup procedures were to be created and brought to the Board for approval by March 1, 2009 and April 1, 2009, respectively. However, District officials have not implemented these portions of their corrective action plan.

Web Filters

Due to the global nature of the Internet, school districts today find that it is a nearly indispensable resource for conducting legitimate business and educational activities. However, in recent years, even experienced users are susceptible to significant threats from cyber

⁷ 2008M-194, *Spackenkill Union Free School District, Internal Controls Over Selected Financial Activities*, December 2008

criminals who exploit the vulnerabilities of systems and software to gain unauthorized access to sensitive data. For example, computers can be infected by malicious software⁸ that, unknown to users, installs a keystroke logger that captures computer user identification and password information. Hackers can later use this information to access networks, databases and even bank accounts, resulting in high risk of loss. Internet browsing increases the likelihood that users will be exposed to some form of malicious software that may compromise data confidentiality. The District's acceptable use policy provides employees and students with guidelines for IT asset use and security. Specifically, the policy prohibits the use of District computers for non-educational or illegal purposes.

The District has an Internet content filter on its network server to block access to certain objectionable websites. The District's filtering software offers 49 available filtering categories of which the District blocks five, including malware, pornography/nudity, gambling, child pornography and web proxies.⁹

The District's Internet content filtering software is capable of recording Internet activity and generating the information in the form of a report for a specified period of time. We reviewed the District's Internet activity for one week of our audit period. Of the 1,256,435 hits¹⁰ reviewed, we found 274 unique domain names that did not appear to be in accordance with the acceptable use policy. Of these, the District's content filter blocked six. Although websites containing pornography and proxies were completely blocked, the filter allowed access to other websites that were not educational in nature, such as personal email, social networking, travel, personal interests, shopping, entertainment, dating, gaming and personal file storage.

The IT Director told us that the Superintendent used to annually review and determine which filter categories to block; however, this has not happened in recent years. Currently, the IT Department modifies the filters based on needs or issues that may arise. In addition, the District allows questionable categories such as gaming, violence and hate because some of the websites accessed in those categories could serve legitimate educational purposes. However, when employees and students access websites through the District's network that are not in

⁸ Malicious software (malware) is designed to infiltrate a computer system by circumventing network defenses, avoiding detection and resisting efforts to disable it. Malware includes computer viruses, Trojan horses, spyware, worms, rootkits and other forms of invasive contaminating software.

⁹ A web proxy is a web-based proxy server that acts as an intermediary for requests from clients seeking resources from other servers over the Internet. A user could access a web proxy as a means to bypass the District's Internet content filter.

¹⁰ A hit is a request to a web server for a file, such as a web page or an image.

accordance with the acceptable use policy, productivity is reduced and there is an increased risk that the websites' contents could put District assets and users at risk.

Servers and Wiring Closets

A network server processes requests and delivers data to other computers within the network. Because the role of a server is so critical, it is imperative that school districts implement an effective internal control system to protect servers and other IT equipment from environmental hazards and misuse. Effective internal controls include physical safeguards such as locked doors to prevent unauthorized persons from entering the server room, adequate ventilation and protections against natural disasters such as floods. If the server room becomes compromised, there is an increased security risk to the District's IT resources and data, including confidential information. Furthermore, critical IT infrastructures take considerable time and money to replace and repair if they are damaged, destroyed or stolen.

The District's main server room is located in the high school and performs critical operational functions such as communicating with BOCES to run and back up the District's financial and student management software. We observed water pipes directly above these servers. Further, a water pipe had leaked a short time before our examination of the room, and there was a puddle of water directly next to a rack housing a server. Water damage to a server could significantly decrease or cease its performance and, in effect, put the District's IT operations and data at risk.

Without adequate physical safeguards in place, IT assets and District data, including confidential information, could be compromised.

Recommendations

District officials should:

11. Update the District's acceptable use policy to include the use of personal devices on the District's network.
12. Create IT policies and procedures related to disaster recovery and data backup.
13. Ensure all network users receive IT security training.
14. Adjust the Internet content filtering to ensure that staff and students are in compliance with the District's acceptable use policy.
15. Ensure that servers and wiring closets are kept secure and away from environmental hazards.

APPENDIX A

Figure 7: Excess Bus Capacity Analysis

With Elementary PM Runs Separated							With Elementary PM Runs Combined		
Run	Run Time	Number of Buses	Bus Capacity	Actual Ridership Plus 10% Additional Required Capacity ^a	Excess Capacity	Buses Potentially Eliminated ^b	Actual Ridership Plus 10% Additional Required Capacity ^a	Excess Capacity	Buses Potentially Eliminated ^b
High School	AM	8	528	166	362	5	166	362	5
High School	PM	8	528	167	361	5	167	361	5
Middle School	AM	9	594	185	409	6	185	409	6
Middle School	PM	9	594	157	437	6	157	437	6
Elementary	AM	9	594	350	244	3	350	244	3
Hagan	PM	5	330	215	116	1	317	277	4
Nassau	PM	4	264	102	162	2			

^a Education Law allows the District to provide transportation based on patterns of actual ridership. However, the District must have supporting documentation for its calculation, and the calculation must provide for an additional 10 percent capacity above what is originally calculated to be available for unanticipated riders.

^b Only the lowest number in this column can be eliminated without disruption to other service needs.

APPENDIX B

RESPONSE FROM DISTRICT OFFICIALS

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



DISTRICT OFFICE

MICHELE S. MOLONEY
School Business Manager

September 25, 2015

Office of the State Comptroller
Division of Local Government and School Accountability
33 Airport Center Drive, Suite 103
New Windsor, New York 12553

Dear Sir:

On August 26, 2015, the Superintendent and the Board of Education of the Spackenkill Union Free School District received the preliminary draft report of the recent audit by the Office of the State Comptroller that occurred between February and June 2015.

On behalf of the Board of Education, we appreciate the opportunity to respond to the Financial Management, Transportation and Information Technology Report of Examination for our district that was conducted by your office. The purpose of this letter is to address the draft results and recommendations contained in this report.

The Board of Education and District Administration strive to follow the highest standards of fiscal management and ethical practices. To this end, the district will seek continuous improvement in our operations.

It is important to note that State Auditors found no fraud, or no issues with bidding or RFP's.

See
Note 1
Page 24

The preliminary audit report addresses several items concerning financial condition and includes inferences that District officials and the Board of Education have made it a practice to overtax the community by over-budgeting for expenses. The District is faced with many unknown factors when projecting financial obligations at the time its budget is prepared. The District has also stayed within the tax cap since the inception of that legislation.

In January 2015, the district received a "0% designation" on the state's Fiscal Stress Monitoring system for the 2013-2014 school year. The same was true for the 2012-2013 school year. According to the Comptroller's Fiscal Stress Monitoring System Fact Sheet, "the system is designed to identify where an entity is headed so the decision-makers are not merely responding to a crisis.

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Instead, they are taking deliberate, long-term and strategic approaches to managing the affairs of their local government". This has been the long term historic approach that the district has taken with respect to budgeting and managing fund balance and reserves.

Since the implementation of the tax cap, the district has been consciously using reserves in a conservative manner in order to not only stay below the tax cap and also not to deplete reserves in a manner that could be considered fiscally imprudent and cause fiscal stress on future budgets. The concern is further complicated by the revenue challenges districts are facing in having uncertain long term state aid projections. During the 2014-15 school year, the district used reserves in excess of \$525,000 in order to stay within the tax cap and ease the financial burden on the community. Spackenkill is also in a unique position with respect to IBM and its impact on the tax levy and non-homestead tax rates.

It is important to note that none of the district's reserves are prohibited by New York State and our independent auditor and management of the school district do not believe they are excessive.

In order to provide for better transparency, the district will provide the community with reserve projections during the spring budget workshops.

Technology

11) Add personal devices to AUP

The district will update the AUP to include the use of personal devices.

12) Create IT policies and procedures

Although the district does perform backups for all data every night and has a disaster plan, the district will update the written procedures around those processes.

13) Ensure all network users receive IT security training.

The district will look to see if other local school districts provide this training.

14) Adjust the internet content filtering to ensure that staff and students are in compliance with the district's acceptable use policy.

It's a well known fact that web filtering isn't a perfect solution. The district is in full compliance with the Children's Internet Protection Act (CIPA) that requires schools to restrict access to adult content. We do not rely on the technology alone however. We teach our students about responsible internet usage and how to stay safe while online. Students can potentially be working on reports related to bullying, gun violence, gambling, online shopping and a large array of other controversial topics. To block every category that's not educational and then to manually un-block every site a student may want to use for research would be extraordinarily time consuming.

See Note 2 Page 24

Transportation


The district has decreased large bus runs over the last several years from 12 to 9 currently. We are utilizing routing software in order to identify more efficient routes. We take into account the length of the bus runs in terms of having buses arrive to and leave from the schools in timely manner given our three tier system. We also take into account the community's expectations in terms of length of the in-district bus routes of being less than 30 minutes.

The maximum capacity with respect to students on the bus is 44 adults or 66 children. The recommendation to reduce bus runs by loading 66 students on the high school and middle school buses would force the students to sit three to a seat, which would not physically possible in all situations and could cause safety concerns.

See
Note 3
Page 24

The district will continue to seek for additional ways to streamline our transportation system.

Very truly yours,

 Thomas L. Keith, Jr.
Board President

APPENDIX C

OSC COMMENTS ON THE DISTRICT'S RESPONSE

Note 1

The objective of our audit did not include purchasing. As such, we did not audit bidding or requests for proposals.

Note 2

The District's acceptable use policy prohibits the use of District computers for non-educational or illegal purposes. That would include accessing personal email, social networking, dating and gaming, as found during the audit. The District should block content which is prohibited per its acceptable use policy.

Note 3

The audit used 66-passenger capacity for all runs. However, if re-evaluated under the District's criteria of 44-passenger capacity for high school and middle school runs and 66-passenger capacity for children on the elementary school runs, the analysis still results in the ability to eliminate one bus with no changes to the runs or eliminate three buses by combining afternoon runs.

APPENDIX D

AUDIT METHODOLOGY AND STANDARDS

The objectives of our audit were to assess the District's financial management, and evaluate the internal controls over transportation and IT. To achieve our objectives and obtain valid audit evidence, we performed the following audit procedures:

- We interviewed appropriate District officials and reviewed the policies and procedures surrounding financial management, transportation and IT.
- We reviewed the general fund's results of operations and analyzed changes in fund balance for the period July 1, 2010 through June 30, 2014.
- We compared the adopted budgets to the modified budgets and actual operating results to determine if the budget assumptions were reasonable.
- We reviewed the appropriation of the District's reserves and fund balance for the period July 1, 2010 through June 30, 2014.
- We reviewed expenditures based on the District's budget categories to identify significant expenditures and analyze trends.
- We reviewed Board minutes and resolutions to verify the establishment of reserve funds. We reviewed the reserve balances for reasonableness.
- We tested the reliability of the accounting records by reviewing the District's independently audited financial statements against the annual financial report filed with the Office of the State Comptroller. In addition, we reviewed the Board minutes to determine if adopted budget amounts in the records were accurate.
- We reviewed budget and revenue status reports.
- We reviewed meeting minutes and interviewed officials to determine whether the District's management is involved in financial matters. We determined whether they received and reviewed financial reports, analyzed the need for and establishment of reserves and otherwise monitored the District's financial condition.
- We reviewed the 2013-14 and 2014-15 transportation contracts. In addition, we obtained and reviewed the bid specifications for the 2014-15 transportation contract.
- We obtained routing data sheets completed by the District's drivers to determine actual ridership and mileage of contracted buses.
- We obtained a trip analysis report from the District's system and used the data to analyze capacity, number of trips, mileage per trips and number of students for the 2013-14 and 2014-15 school years.

- We reviewed the District's fuel allotment to the Contractor for the 2013-14 and 2014-15 fiscal years and recalculated the fuel allotment based on the terms and conditions in the bid specifications.
- We traced the District's monthly transportation payments back to the bank statements to determine if the District deducted the value of the excess fuel given to the Contractor in 2013-14.
- We reviewed the controls in the fuel management system and a pump transaction report to determine if controls were working effectively.
- We summed all of the fuel deliveries to the District and subtracted the current inventory to arrive at the total fuel used. We then compared our calculation to a fuel usage report from the fuel management application to determine any unreconciled amounts.
- We reviewed the 2008 Office of the State Comptroller audit report of the District to determine if District officials have implemented corrective action.
- We extracted the District's Internet history for a week from the Internet content filtering software and examined the history for allowed websites that were not in accordance with the District's acceptable use policy.
- We observed the server room at Spackenkill High School to assess the physical controls over servers, wiring closets and surplus IT equipment.

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

APPENDIX E

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

Andrew A. SanFilippo, Executive Deputy Comptroller
Gabriel F. Deyo, Deputy Comptroller

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