



Glen Cove City School District Portable Electronic Devices and Conflict of Interest

Report of Examination

Period Covered:

July 1, 2014 – February 29, 2016

2016M-285



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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

November 2016

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 Glen Cove City School District, entitled Portable Electronic Devices and Conflict of Interest. 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 Glen Cove City School District (District) is governed by the Board of Education (Board), which is composed of seven elected members. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools 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 six schools with approximately 3,200 students and 820 employees. The District's budgeted appropriations for the 2015-16 fiscal year were approximately \$82.5 million, which were funded primarily with real property taxes.

Scope and Objective

The objective of our audit was to review internal controls over information technology (IT) equipment and user access and potential conflicts of interest for the period July 1, 2014 through February 29, 2016. Our audit addressed the following related questions:

- Did District officials implement adequate procedures to secure portable electronic devices?
- Did any District officials have prohibited interests in contracts with the District?

Audit Results

Although the District's Human Resources office generally notified the IT office of new hires and employees who separate from District service, there was no written policy for notifying the IT office of new hires, keeping track of equipment assigned to employees, and collecting equipment when an employee leaves District employment. The District's inventory of portable electronic devices lacked key information, such as date inventoried and purchased, and did not show all devices assigned to employees. Our review of 38 former employees found three tablets unaccounted for, two of which were later recovered after our inquiry. In addition, one Board member had a prohibited interest in District contracts because he owned a business from which the District purchased awards for student athletes which cost a total of \$14,723 between July 2009 and June 2015.

Comments of District Officials

The results of our audit and recommendations have been discussed with District officials, and their comments, which appear in Appendix A, have been considered in preparing this report. District officials generally agreed with our recommendations and indicated they will take corrective action.

Introduction

Background

The Glen Cove City School District (District) is located in the City of Glen Cove, Nassau County. The District is governed by the Board of Education (Board), which is composed of seven elected members. The Board is responsible for the general management and control of the District's financial and educational affairs. The Superintendent of Schools (Superintendent) is the 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 Information Technology (IT) Director is responsible for the administration and inventory of the District's portable electronic devices.

The District operates six schools with approximately 3,200 students and 820 employees. The District's budgeted appropriations for the 2015-16 fiscal year were approximately \$82.5 million, which were funded primarily with real property taxes.

Objective

The objective of our audit was to review internal controls over IT equipment and user access and potential conflicts of interest. Our audit addressed the following related questions:

- Did District officials implement adequate procedures to secure portable electronic devices?
- Did any District officials have prohibited interests in contracts with the District?

Scope and Methodology

We examined the District's internal controls over portable electronic devices and potential conflicts of interest for the period July 1, 2014 through February 29, 2016. Our audit disclosed areas in need of improvement concerning IT controls. Because of the sensitivity of some of this information, certain 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 B of this report. Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

**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 generally agreed with our recommendations and indicated they will take corrective action.

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.

Portable Electronic Devices

The Board and the Superintendent are responsible for establishing and enforcing policies and procedures to protect portable electronic devices such as laptop computers, tablets and cell phones. The procedures should include periodic inventories (i.e., locating all District-owned devices to ensure they are accounted for) and updating inventory records as additions, deletions and relocations occur. Up-to-date records require that officials keep track of all equipment issued and ensure that the equipment is returned upon an employee's separation from the District. District officials should also maintain complete and accurate equipment inventory records, including a description of the asset, serial number, location, date of purchase and the employee or building to which the equipment has been assigned. District equipment should be issued only to current employees unless there is a valid and documented reason to do otherwise.

The District did not have a written policy for notifying the IT office of new hires, keeping track of equipment assigned to employees and collecting equipment when employees leave District employment. Such procedures could include a new-hire checklist including notification to different departments, as applicable, and a record of any equipment an employee may have been issued. Likewise, when an employee leaves, an exit checklist can help ensure the collection of any equipment the employee may have been assigned.

The District's Human Resources procedure is to notify the IT office by email of any new hires or employee separations along with the corresponding Board proceedings. Our review of 10 new hires¹ and 55 employees who separated from the District during our audit period showed that the IT office was correctly informed.

The IT office maintains an inventory of all the District's portable electronic devices, including laptops and tablets. The inventory report provided to us in March 2016 was missing many items of key information such as date inventoried and date purchased, and not all portable electronic devices were captured on the inventory report. For example, an administrator who began District employment in July 2015 said he was issued a laptop, but the IT inventory report did not show a laptop assigned to him. In May 2016, the IT Director provided us with a separate inventory list of laptops that were not included in the IT inventory report previously provided.

¹ See Appendix B for sampling methodology.

The IT Director told us that employees in certain job titles receive tablets or laptops automatically, while for others, an administrator must submit a request. We reviewed 38 employees² who separated from the District during our audit period and found that three tablets were unaccounted for. District officials told us that one tablet, assigned to an employee who left the District in October 2015, was left with the former employee's supervisor. However, this tablet was not turned over to IT officials and they were not aware that it was unaccounted for. A second missing tablet was recovered in April 2016 after we inquired about it and the IT office contacted the employee, who left the District in July 2015. The third tablet remained unaccounted for at the end of our fieldwork.

Lastly, we cross-checked the names of 309 assigned users³ on the inventory report with employees on the payroll as of April 2016 to determine whether only current District employees were issued tablets. Except for the three missing tablets, and other minor discrepancies that we discussed with District officials, all tablets on the inventory list were assigned to current District employees.

Without adequate policies and procedures, District officials cannot ensure that appropriate staff are notified of new hires and separations and that equipment is returned upon an employee's separation from District service. Furthermore, by not maintaining complete, accurate and updated records, the District cannot determine whether all portable devices such as laptops and tablets can be accounted for.

Recommendations

District officials should:

1. Develop and implement policies and procedures to properly account for portable electronic devices issued to new hires and employees who leave District service.
2. Ensure that an inventory with all computer equipment, including laptops and tablets, is maintained and includes the assigned users for each device and relevant information pertaining to each asset.
3. Ensure that all laptops and tablets are collected from employees who separate from District service.

² We included all employees with job titles that are issued tablets who separated from the District during our audit period.

³ This includes the three tablets that the District did not collect from the three former employees.

Conflict of Interest

Article 18 of General Municipal Law (GML) limits the ability of municipal officers and employees, including school districts, to enter into contracts in which both their personal financial interests and their public powers and duties conflict. Unless a statutory exception applies, GML prohibits school district officers and employees from having an “interest” in contracts with their school district when they also have the power or duty, either individually or as a board member, to negotiate, prepare, authorize or approve the contract, to authorize or approve payment under the contract, to audit bills or claims under the contract or to appoint an officer or employee with any of those powers or duties. For this purpose, a “contract” includes any claim, account, demand against or agreement with a district, express or implied.

School district officers and employees have an interest in a contract when they receive a direct or indirect monetary or material benefit as a result of a contract. District officers and employees are also deemed to have an interest in the contracts of their spouse, minor children and dependents (except employment contracts); a firm, partnership or association of which they are a member or employee; and a corporation of which they are an officer, director or employee, or directly or indirectly own or control any stock. As a rule, interests in actual or proposed contracts on the part of a school district officer or employee, or his or her spouse, must be publicly disclosed in writing to the district officer’s or employee’s immediate supervisor and to the governing board and included in the official minutes of the board proceedings.

The District made purchases from a Board member’s corporation from July 2009 through June 2012 totaling \$9,212, and from July 2013 through June 2015 totaling \$5,511. We found that the Board member had a prohibited interest in these District contracts. According to the Board member, he is the owner of an incorporated sporting goods store from which the District primarily purchases trophies and awards for student athletes. According to the Board member, his business provided the District with trophies for award ceremonies because of the company’s ability to fulfill last-minute orders and had been doing so prior to his terms on the Board.⁴

⁴ The Board member served a three-year term on the Board from July 1, 2009 through June 30, 2012 and another three-year term from July 1, 2013 through June 30, 2016. District records show payment to the Board member’s corporation dating back to February 1996.

Each purchase made by the District from the Board member's corporation results in an "agreement" for the sale of goods at a certain price, and thus a "contract" for purposes of GML. As a partial or sole owner of the corporation, the Board member is deemed to have an interest in each contract by virtue of being a stockholder of the corporation.⁵ As a member of the Board, this individual also has one or more powers or duties that can give rise to a prohibited interest, including the ability to authorize or approve the contracts and to appoint someone to perform the function of auditing bills or claims under the contracts. Accordingly, because none of the statutory exceptions appear to apply in this instance, we believe the Board member had a prohibited interest in each of the contracts with his corporation.

When District officers, in their private capacities, conduct business with the District for which they serve, the public may question the appropriateness of the transactions. Such transactions may create an actual conflict of interest or the appearance of impropriety.

Recommendations

The Board should:

4. Ensure that all officials and employees are familiar with the requirements of Article 18 of GML as they relate to conflicts of interest.
5. Ensure that the District does not enter into any contract in which a District officer or employee has a prohibited interest.

⁵ During the Board member's first term of office (July 1, 2009 through June 30, 2012), the District made purchases of \$9,212 from the corporation. Based on conversations with the Board member, it is our understanding that during this time he was a partial owner who owned more than 5 percent of the corporation's outstanding stock. During the Board member's second term of office (July 1, 2013 through June 30, 2016), the District made purchases totaling \$5,511 from the corporation. It is our understanding that during this second period of time the Board member was the sole owner of the corporation. During both periods of time, the Board member is deemed to have an interest in each contract by virtue of being a stockholder of the corporation (see GML Section 800[3][d]).

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

Dr. Maria L. Rianna
Superintendent of Schools
mrianna@glencove.k12.ny.us

November 3, 2016

Mr. Ira McCracken, Chief Investigator
Division of Local Government and School Accountability
Office of the State Comptroller
110 State Street
Albany, NY 12236

Dear Mr. McCracken:

I would like to begin my letter by thanking you and the team from the Office of State Controller on your professionalism and expertise in not only conducting the audit in Glen Cove but also providing us with guidance and recommendations in order to continue our goal of ongoing improvement. This letter is to also serve as a response to your findings as well as to clarify matters we feel need further explanation than what is simply provided within your report.

In the last three and a half years, the Glen Cove City School District, its Board of Education and Central Office Administration, has focused on enhancing the operational functions and educational programs in our schools. With transparency being at the forefront, we would like to it to be noted that we have conducted a full risk assessment in the 2013 – 2014 school year as well as requested an audit by your office rather than wait until our district was scheduled for one. The transparency requested and supported by the Board, the administration and the community, during the last three plus years, has enabled us to move from a risk assessment with 63 audit comments to one with significantly fewer comments.

At our exit conference, an area of concern to the district and seemingly equally understood by the examiners, was the comment regarding a prohibited interest in district contracts by one board member for a total of \$14,723 over a six year period.

It needs to be emphasized that at no time did District officials knowingly and willfully violate provisions of the General Municipal Law pertaining to conflicts of interest. All actions previously taken were in good faith, and with no intent to violate the law. The District has taken affirmative steps to ensure that all purchasing policy rules will be strictly adhered to.

I appreciate your guidance as we work to improve our district's policies and procedures and look forward to our next audit in which you will find us in 100% compliance.

Sincerely,

Dr. Maria L. Rianna
Superintendent of Schools

MLR/ra

cc: Board of Education
Dr. Michael Israel, Asst. Superintendent
Victoria Galante, Asst. Superintendent

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

To achieve our audit objectives and obtain valid evidence, we performed the following procedures:

- We interviewed District officials to gain an understanding of the process for keeping track of IT equipment issued to employees and for the return of equipment from separated employees and to gain an understanding of the District's process for maintaining inventory records.
- We inquired if the District had any formal written policies related to portable electronic devices.
- We obtained inventory reports for tablets and laptops to determine whether the District keeps track of portable electronic devices that are assigned to specific users.
- We reviewed electronic data and payroll change memoranda to determine which employees were hired during our audit period. Based on discussions with District officials, we determined that 25 new hires were likely to receive a tablet or laptop. Our sample consisted of selecting, without any known bias, one new hire from each job title, for a total of 10, to determine if the IT office was notified of the new hires.
- We identified 112 employees who separated from the District during our audit period and selected the 55 employees with network accounts to determine if the IT department was notified of the employees' separation from service. Of the 55 employees, we reviewed inventory reports for all 38 employees with titles that would have been issued tablets to determine whether the tablets were returned.
- We cross-checked the District's inventory report of all tablets with the most current employee payroll to determine if devices were assigned only to District employees.
- We obtained a written conflict-of-interest disclosure statement from each member of the Board. We interviewed the Board member with a potential conflict of interest to gain an understanding of the possible conflict of interest.
- We reviewed the District's code of ethics to determine if it addressed conflicts of interest.
- We determined the periods of time that the Board member with the potential conflict of interest served on the Board and determined how much the District paid to his business while he was serving on the Board. We reviewed the associated claims to determine the nature of the purchases.

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 C

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