Chateaugay Central School District
Internal Controls Over Selected Financial Activities

Report of Examination
Period Covered:
July 1, 2005 — May 31, 2007
2007M-239

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November 2007

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 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 Chateaugay Central School District, entitled Internal Controls Over Selected Financial Activities. This audit was conducted pursuant to the State Comptroller’s authority as set forth in Article V, Section 1 of the State Constitution, and 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
The Chateaugay Central School District (District) is governed by the Board of Education (Board) which comprises seven elected members. The Board is responsible for the general management and control of the District’s financial and educational affairs. The Superintendent of Schools (Superintendent) is the chief executive officer of the District and is responsible, along with other administrative staff, for the day-to-day management of the District under the direction of the Board.

The District recorded approximately $18 million in revenues during the period July 1, 2005 through May 31, 2007. During the same period, the District recorded approximately $29,850 from an after-school childcare program and approximately $33,250 from miscellaneous retail sales at the District office. Additionally, the extra-classroom activity fund recorded more than $456,000 in receipts and disbursements. The District has approximately 135 individual computers that are networked together. District employees use computers in day-to-day operations for instructional purposes and to process financial transactions. The Northeastern Regional Information Center (NERIC) provides information technology services to the District.

Scope and Objective

The objective of our audit was to determine if the District had established effective internal controls over financial operations of the Business Office, extra-classroom activity funds, and information technology for the period July 1, 2005 through May 31, 2007. Our audit addressed the following related questions:

- Have adequate internal controls been established over the financial operations of the Business Office to ensure that District assets are properly safeguarded?

- Are internal controls over extra-classroom activity funds adequate?

- Are internal controls over the District’s information technology system appropriately designed to protect electronic data?

Audit Results

We found instances where the Board had either not established critical internal controls or controls that had been established were not implemented and operating effectively. As a result the District is vulnerable to the possibility of errors and/or irregularities occurring and not being detected in a timely manner.
There were weaknesses in the controls over the financial operations of the Business Office. The Board has not adopted comprehensive written policies and procedures to provide guidance and internal controls for payroll processing, cash receipts and disbursements, and claims processing. Specifically, there was inadequate segregation of duties over payroll and cash receipts and disbursements with minimal oversight. The payroll clerk applies the Treasurer’s signature to payroll checks and the Deputy Treasurer applies the Treasurer’s signature to accounts payable checks without any oversight or review by the Treasurer. Furthermore, the District’s blank check stock is not physically safeguarded. Cash receipts were not properly accounted for or deposited timely. As a result, checks could be issued for non-authorized purposes and cash receipts are susceptible to theft or loss. For example, $6,514 of after-school childcare program cash receipts were deposited at least 10 days after the date the monies were received, ranging from 11 to 52 days and $20,067 of miscellaneous sales receipts were deposited at least 10 days after the date the monies were received, ranging from 11 to 266 days. In addition, there were weaknesses in the review of claims because the District’s claims auditor was a full time employee in the District Business Office, which prevented her from providing an independent audit of claims. The District made payment on 103 claims totaling $83,745 without review by the claims auditor during our audit period. As a result, the District could be paying claims that are not authorized or legitimate District expenses.

The Board established a policy governing the operations of the extra-classroom activity fund, but fund monies were not maintained in accordance with the policy. Although the Board appointed the elementary school principal as the fund’s faculty auditor, there was no indication that transactions were adequately monitored. Blank check stock and fund monies were not physically safeguarded. Extra-classroom fund cash receipts, totaling $34,029, were deposited in the bank anywhere between 11 to 171 days from the date the funds were collected. District officials cannot be certain that extra-classroom fund monies are accounted for appropriately and deposited intact.

Finally, the District does not have adequate written policies and procedures providing guidance and internal controls as it relates to information technology (IT) and the protection of electronic data stored by the District. Although the District has established a Technology Acceptable Use policy, the policy does not adequately address procedures that establish controls to adequately safeguard the District’s IT system and the data that is stored on it.

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 have initiated, or indicated they planned to initiate, corrective action.
Background

The Chateaugay Central School District (District) is located in the Town(s) of Bellmont, Burke, and Chateaugay in Franklin County, and the Town(s) of Clinton and Ellenburg in Clinton County. The District is governed by the Board of Education (Board) which comprises seven elected members. The Board is responsible for the general management and control of the District’s financial and educational affairs. The Superintendent of Schools (Superintendent) is the chief executive officer of the District and is responsible, along with other administrative staff, for the day-to-day management of the District under the direction of the Board.

There is one school in operation within the District, with approximately 600 students and 110 employees. The District’s budgeted expenditures for the 2006-07 fiscal year were $9.2 million, which were funded primarily with State aid, real property taxes, and grants.

The District recorded approximately $18 million in revenues during the period July 1, 2005 through May 31, 2007. During the same period, the District recorded approximately $29,850 from an after-school childcare program and $33,250 from miscellaneous retail sales at the District office. Additionally, during the same period, the extra-classroom activity fund recorded more than $456,000 in receipts and disbursements. The District has approximately 135 individual computers that are networked together. District employees use computers in day-to-day operations for instructional purposes and to process financial transactions. The Northeastern Regional Information Center (NERIC) provides information technology services to the District.

Objective

The objective of our audit was to determine if the District had established effective internal controls over financial operations of the Business Office, extra-classroom activity funds, and information technology. Our audit addressed the following related questions:

- Have adequate internal controls been established over the financial operations of the Business Office to ensure that District assets are properly safeguarded?

- Are internal controls over extra-classroom activity funds adequate?

- Are internal controls over the District’s information technology system appropriately designed to protect electronic data?
Scope and Methodology

During this audit, we examined the District’s control environment and its internal controls over financial operations of the Business Office, extra-classroom activity funds, and information technology for the period July 1, 2005 through May 31, 2007.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix B 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 generally agreed with our recommendations and have initiated, or indicated they planned to initiate, corrective action.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of the General Municipal Law, Section 2116-a (3)(c) of the Education Law and Section 170.12 of the Regulations of the Commissioner of Education, the Board must approve a corrective action plan that addresses the findings in this report, forward the plan to our office within 90 days, forward a copy of the plan to the Commissioner of Education, and make the plan available for public review in the District Clerk’s office. For guidance in preparing the plan of action, the Board should refer to applicable sections in the publication issued by the Office of the State Comptroller entitled Local Government Management Guide.
Financial Operations

District officials are responsible for designing internal controls that help safeguard the District’s resources and ensure that these resources are used economically and efficiently. An adequate system of internal controls includes clear policies and procedures that promote effective operations, the prudent use of resources and the adherence to applicable laws and regulations. Further, an effective system of internal controls provides for the segregation of duties such that no single individual controls all phases of a transaction. When it is not practical to segregate duties because of limited staff resources, District officials should establish compensating controls. Such compensating controls could require other administrative employees to periodically review the work of the staff under their direction, and for the periodic rotation of work duties.

District officials have not adopted comprehensive written policies and procedures to provide guidance and internal controls for payroll processing, cash receipts and disbursements, and claims processing. This lack of guidance has resulted in a lack of segregation of duties and a lack of compensating controls over the District’s financial operations.

Payroll Processing — Written payroll policies and procedures, combined with job descriptions affixing responsibilities for specific payroll activities, help to ensure that employees understand their personal role in the payroll process. An important principle of internal control requires that no individual have uncontrolled access to an entire processing cycle. It is incumbent upon the Board to establish a system of checks and balances to ensure that this does not occur.

The District’s payroll clerk is directly responsible for the following payroll duties: creating manual and computerized employee records, inputting all payroll changes, collecting timesheets, entering the hours worked or salaries paid, printing payroll checks, and maintaining paychecks until disbursed to District employees, all of which are performed with only minimal oversight. The only independent review implemented by the District is the Superintendent’s certification of final payrolls.

Based on the lack of internal controls over the processing of payroll during our scope period, we traced the names of all recipients of payroll payments during the 2005-06 fiscal year to either staff directories or personnel files to verify that they were employees of the District. We
noted no exceptions based on our testing. In addition, we tested the accuracy of 20 employees’ salaries during the 2005-06 fiscal year. We found no significant discrepancies.

However, concentrating key payroll duties with one individual weakens internal controls and significantly increases the risk that errors and/or irregularities could occur and remain undetected. The lack of proper oversight over the payroll process, as evidenced by the absence of compensating controls, further increases the potential for fraud and abuse.

Segregation of Duties — An effective system of internal controls over cash receipts and disbursements requires the division of responsibilities such that no one individual performs incompatible duties, and that the work of one employee is independently verified in the course of another employee's regular duties. While it may not always be possible to achieve an optimal segregation of duties, at a minimum, the duties of recordkeeping, bank account reconciliation and cash disbursements should be separated.

The reconciliation of bank account balances to general ledger cash balances is an essential control activity. This process should provide for the timely identification and documentation of differences between District and bank cash balances. Bank reconciliations provide a unique opportunity for an internal verification of cash receipt and disbursement transactions. Without accurate and complete bank reconciliations, performed and reviewed by an individual independent of the cash-custody function, District officials cannot have a reasonable level of assurance that the accounting records are correct or that monies are accounted for properly.

Bank reconciliations were not performed by an individual independent of the cash custody and record keeping functions. Specifically, the Treasurer is responsible for performing bank reconciliations and, is responsible for the collection of cash; making daily deposits; recording of receipts within the financial management software; transferring funds from District accounts; signing checks; and preparing, approving and reviewing journal entries. In addition, the Treasurer receives bank statements and cancelled checks and reconciles the bank accounts with only minimal oversight. These deficiencies still exist despite the fact that the District’s independent audit report for the 2005-06 fiscal year contained an audit finding related to a lack of segregation of duties. The only independent review implemented by the District is that the Board reviews bank reconciliations on a monthly basis. We reviewed all of the District bank account reconciliations for the months of February 2006 and May 2007 and identified no discrepancies.
However, concentrating key cash receipts and disbursement duties with one individual weakens internal controls and significantly increases the District’s exposure to the possibility of fraud, abuse, and professional misconduct.

**Check Signing** — Effective control over the disbursement of cash is vital to prevent unauthorized payments and misuse of funds. As the District official responsible for signing checks, the Treasurer plays a critical role in the cash disbursement process. The Treasurer must ensure that her signature is not used to make payments that have not been approved. Education Law requires the Treasurer’s actual or facsimile signature to be affixed to District checks by the Treasurer or affixed under the Treasurer’s direct supervision.

The Treasurer does not maintain adequate control over her signature. District checks are computer-generated with the Treasurer’s signature imprinted on them. The payroll clerk applies the Treasurer’s signature to payroll checks and the Deputy Treasurer applies the Treasurer’s signature to accounts payable checks, without any oversight or review by the Treasurer. In addition, although blank check stock is stored within a walk-in vault within the main office, the Treasurer, Deputy Treasurer, and payroll clerk have the combination to open the vault. Additionally, check stock is readily accessible to other individuals, because the vault is open throughout the school day. As a result, we scanned more than 500 cancelled payroll checks and more than 195 accounts payable checks that were issued during our audit period in order to verify that they were issued in sequence and could be accounted for. We did not note any exceptions based on our testing. However, District officials have no assurance that signed checks are being produced for only legitimate District purposes and that all blank check stock is accounted for.

**Cash Receipts** — A good system of internal controls over cash receipts provides for timely supervision of those charged with handling monies, as well as the issuance of duplicate press-numbered receipts in sequence for all cash collections. Additionally, good business practice requires cash and checks to be deposited daily or as quickly as possible to prevent the loss or misuse of cash. Delay in depositing and recording cash receipts could also misrepresent the actual flow of cash in the District’s financial records, make cash more susceptible to theft or loss, and reduce the District’s potential interest earnings.

The District operates an after-school childcare program for students in grades kindergarten through sixth on a daily basis from 2:20 p.m. to 5:30 p.m. The established rates for the after-school childcare program is $4.00 per day per child with a maximum amount of $10.00 per day for three or more children. The District recorded $29,846
of after-school childcare program revenues during our audit period. Monies are collected by two after-school childcare monitors on a daily basis, who then issue duplicate press-numbered cash receipts for each individual payment collected. The monies and receipts are stored in a locked cabinet within the elementary school office, until the typist in the elementary school office compares the total on the press-numbered receipts to actual cash receipts, and then brings it to the District Treasurer, who makes the bank deposit. Receipts were not issued in sequence, different types of receipt books were used, and the monitors did not always abide by the established rates. For example, District officials indicated there was an informal policy, if a District employee’s child did not stay the duration of the after-school program then the employee was only charged $1.00 per day per child. As a result, we could not verify that all monies collected for the after-school childcare program during our audit period had been accounted for and properly deposited.

We also determined whether after-school childcare program cash receipts were deposited promptly. We examined 10 deposits totaling $9,951, and found that $6,514 of cash receipts were deposited at least 10 days after the date the monies were received, ranging from 11 to 52 days. Additionally, during our review of an after-school childcare program revenue report for the fiscal year ending June 30, 2007, we determined that revenues were not recorded within the accounting records after May 15, 2007, although the after-school childcare program was in operation for an additional 27 days after this date. We informed District officials and the Treasurer found un-deposited monies totaling $2,113 and accompanying press-numbered receipts in a lock box that was locked in the elementary school typist’s desk, who was out on summer vacation. We verified the un-deposited monies agreed with the corresponding press numbered receipts and a deposit was made by District officials at the time of our examination.

Similarly, the District established a “resale program” to be administered by a typist in the main office which consisted of the District selling miscellaneous merchandise and supplies to students, such as yearbooks, review books, and sports equipment. The District recorded $33,224 of resale program revenues during our audit period. Monies from sales are collected by the main office typist, who then issues duplicate press-numbered cash receipts for each individual payment collected. The monies and receipts are stored in the main office walk-in vault, until the typist brings it to the Treasurer, who makes a bulk deposit. During our review we determined that receipts were not issued in sequence, different types of receipt books were used, and that inventories were not maintained of the merchandise and supplies that were being sold. As a result, we could not verify that all monies collected from miscellaneous sales during our audit
period had been accounted for and properly deposited. Our review also consisted of determining whether the related cash receipts were deposited promptly. We examined 10 deposits totaling $20,203, and found that $20,067 of cash receipts were deposited at least 10 days after the date the monies were received, ranging from 11 to 266 days. For example, a bank deposit made on November 20, 2006 totaling $2,152 consisted of receipts collected from July 5 through November 1, 2006.

Good business practices require all cash transactions to be supported with appropriate documentation and deposited promptly. The failure of District personnel to provide a proper accounting of cash receipts results in District monies being more susceptible to fraud and abuse. The lack of oversight by the Board and District officials over cash receipts increases the risk that such monies could be used for purposes other than as intended.

Claims Processing — In general, the objectives of internal controls over claims processing are to ensure that every claim contains enough supporting documentation to determine that it complies with District policies, and that the amounts claimed represent actual and necessary District expenses. When internal controls are not designed appropriately or operating effectively, it increases the risk that employee errors or irregularities may occur and not be detected and corrected.

A claims auditor serves a critical District function since the individual assumes the Board’s powers and duties with respect to auditing claims. The person ensures that all vendor claims are proper and legal before authorizing payment. As such, a claims auditor should be separate from all other business operations. There was a lack of an independent review of claims during our audit period. The Board appointed claims auditor was also the payroll clerk and tax collector. Even though she did not perform any duties directly relating to the purchasing functions, her independence was potentially impaired because she reported directly to the Superintendent for her full-time job functions. When a claims auditor reports directly to School District officials that approve business transactions, the function does not provide independent oversight over those activities. Additionally, the Board had not established a claims processing policy detailing instructions and expectations for a claims auditor.

The District’s claims auditor did not conduct an effective audit of claims. We found that the claims auditor did not audit any vendor claims where payment was made with manual checks. As a result, the District paid 103 claims totaling $83,745 during our audit period that were not reviewed and approved by the claims auditor prior to
We reviewed all 103 payments for appropriateness and did not find any material exceptions.

The lack of effective internal controls over the claims auditing process increases the risk that claims may be paid which are improper charges against the District.

**Recommendations**

1. District officials should establish a comprehensive payroll processing policy that incorporates the duties, records and procedures needed to ensure that the processing of payroll is accurate, efficient, and appropriate.

2. District officials should evaluate the Business Office employees’ duties and responsibilities, specifically in the areas of payroll and cash receipts and disbursements, and where practicable, properly segregate duties. Where it is not practicable to segregate duties, appropriate compensating controls should be used.

3. District officials should ensure that complete and accurate monthly bank reconciliations are performed by someone independent of the cash-custody duties, ensuring that any differences disclosed by the reconciliation process are promptly identified and resolved.

4. The Treasurer should maintain control of her signature, or supervise the signature process for all District disbursements.

5. The Treasurer should ensure that blank check stock is only accessible to individuals that are authorized to sign checks.

6. District officials should establish a comprehensive cash receipts policy that communicates the duties, records and procedures required for ensuring that the collection of monies, issuance of receipts, and deposit of monies received is properly carried out.

7. District officials should ensure that cash and checks collected are deposited timely.

8. The Board should establish a comprehensive claims processing policy detailing instructions and expectations for a claims auditor.

9. The Board should ensure that the individual appointed as claims auditor is not under the direct supervision of the Superintendent.

10. The Board should ensure that all disbursements and manual checks are supported, reviewed and approved by the claims auditor prior to payment.
Extra-Classroom Activity Funds

The Regulations of the Commissioner of Education (Regulations) require each school district’s Board of Education\(^1\) to make rules and regulations for the safeguarding, accounting, and auditing of extra-classroom activity fund (Fund) monies received. The Regulations require the Board to appoint a Central Treasurer responsible for Fund receipts and disbursements and a faculty auditor to oversee management of the Fund.

Generally, extra-classroom activity funds are raised by means other than taxation through charges for, by, or in the name of organizations whose activities are conducted by students. Students raise and spend these funds to promote the general welfare, education, and morale of all students, and to finance the normal and appropriate extracurricular activities of the student body. The District’s 18 accounts in the Fund recorded more than $456,000 in receipts and disbursements during the audit period and had a combined cash balance of approximately $43,600 as of May 31, 2007.

The Board and District officials are responsible for protection and oversight of the District’s cash assets, including Fund monies. These responsibilities include adopting policies and procedures that describe the records that District personnel and students must maintain, and the duties and control procedures that they must follow to adequately safeguard Fund monies. Having a good system of internal controls over these funds helps minimize the risk that errors or irregularities may occur and go undetected. We found that, while the Board established a policy governing the operations of the Fund, Fund monies were not maintained in accordance with the policy because the Board did not effectively oversee District officials’ performance of Fund-related duties. As a result, neither the Board nor District officials had assurance that these monies were being properly accounted for in compliance with Regulations.

The Board appointed the elementary school principal as the extra-classroom activity fund faculty auditor for the 2006-07 fiscal year, but there was no indication a review of records was performed of Fund activities through May 31, 2007. We also noted that although blank check stock and Fund monies were stored within a walk-in vault within the main office, the Treasurer, Deputy Treasurer, and payroll clerk (Central Treasurer) have the combination to open the

\(^1\) The school district must have a population of less than 1 million, and an educational program that extends beyond Grade 6.
vault. Additionally, the walk-in vault was readily accessible to other individuals throughout the day, as a result of the vault remaining open throughout the school day.

As a result of the internal control weaknesses noted, we scanned a sample of more than 250 cancelled extra-classroom checks that were issued during our scope period in order to verify that they were issued in sequence and could be accounted for. We noted no exceptions based on our testing.

We also examined 30 cash receipts totaling $53,127 for five Fund accounts during the audit period to verify that the monies were deposited timely in accordance with good business practices. We found cash receipts totaling $34,029 with variances ranging from 11 to 171 days from the date the monies were collected to the date the monies were deposited into the bank. For example, a bank deposit made on February 24, 2006 totaling $1,230 consisted of receipts collected from January 11 through February 9, 2006. When cash is not deposited promptly, it is subject to increased risk of loss or misuse.

Although we did not find that Fund monies had been used inappropriately, the Board and District officials should act to enforce the District’s policy to better account for Fund monies. Unless the Board increases its oversight of Fund assets and District officials perform Fund management duties in accordance with the policy, the Regulations and good business practices, there is a greater likelihood that errors and irregularities could occur and remain undetected and that Fund monies could be misused.

11. The Board and District officials should ensure that Fund accounts are maintained in accordance with District policy and the Regulations of the Commissioner.

12. The District official appointed as faculty auditor should oversee the management of Fund monies in accordance with the Regulations.

13. District officials should ensure that extra-classroom blank check stock is only accessible to individuals within the District that are authorized to sign extra-classroom activity checks. Additionally, the District should ensure that Fund monies are physically safeguarded.

14. District officials should ensure that cash and checks collected by extra-classroom activities are deposited timely.

Recommendations
One of the Board’s managerial responsibilities is to design and implement a system of internal controls incorporating policies and procedures to provide reasonable assurance that all assets and resources entrusted to its care are used in accordance with all laws, regulations, policies and sound business practices as well as safeguarded against waste, loss and misuse. The District relies on an information technology (IT) system for computer education, access to the Internet, e-mail communication, storing student data, maintaining financial records and reporting to various State and Federal agencies. Therefore, the IT system and the data it holds are a valuable resource. If the IT system fails, the results could range from inconvenient to catastrophic. Even small disruptions in electronic data systems can require extensive employee and consultant hours to evaluate and repair.

The Board and District officials should control and monitor both user access and physical access to IT systems to reduce the risk of misuse and/or alteration of data and a potential financial loss to the District. The Board should also develop a formal disaster plan to provide guidance on the prevention of the loss of computer information as well as the recovery of data in the event of disaster. We found that internal controls over the District’s financial management system and network were inadequate: computer equipment was not protected from unauthorized access; audit logs were not generated and reviewed by someone independent of Business Office operations; backups of data were not adequately stored; and the District did not have a formal IT disaster plan. Because the Board did not develop policies and procedures to address these issues, the District’s IT systems and electronic data have been subject to an increased risk of loss or misuse.

**Computer System Access**

Access controls should provide reasonable assurance that computer resources are protected from unauthorized modifications. To control electronic access, a computer system or application needs a process in place to identify and differentiate among users. User accounts identify users and establish relationships between a user and a network, computer, or application. These accounts are created by the system administrator and contain information about the users, such as passwords and access rights to files, applications, directories and other computer resources. Access controls include establishing adequate passwords, limiting administrator accounts, and restricting users to only the applications that are necessary for their day-to-day operations.
Passwords — Passwords are one of the most basic controls that can be utilized to mitigate the risk of unauthorized users obtaining access to the District’s computer systems. The more complex a password, the better the chances are that unauthorized users will be prevented from obtaining access to the system. Complexity includes, for example, requiring a combination of upper and lower case letters, numbers, and a significant number of characters. Passwords should not be simple words or names and it is also important to require that they be changed on a regular basis. Doing so significantly increases the District’s protection in preventing unauthorized users from accessing sensitive information. Under no circumstances should passwords be written down and accessible to others as this would compromise all the other associated controls.

The District’s Computer Coordinator provides both students and employees with a password when they are first granted access to the network. Passwords are basic and are not held to any complexity requirements. We noted that a one character password was sufficient to gain access. Additionally, once granted access to the network they are not required to change passwords periodically. Furthermore, access rights are not revoked upon a set number of failed sign on attempts.

User Rights Controls — To ensure proper segregation of duties and internal controls, the computerized financial system should only allow users’ access to the computer functions necessary to fulfill their job responsibilities. Having access controls in place prevents users from being involved in multiple aspects of financial transactions. Generally, a system administrator is designated as the person who has oversight and control of the system, and the ability to add new users as well as change users’ passwords and rights. With this ability, administrators are able to control and use all aspects of the software. A good system of controls requires that this position be separate from the Business Office function.

The District’s financial software applications have access controls. The four access categories allowed are “Add,” “Update,” “Delete,” and “Print.” The ability to restrict the access levels of different users is a good control feature in the computerized financial software application. However, we found the Treasurer has full access to certain applications within the human resource, negotiations, payroll, and accounting modules, giving her access to maintain leave accruals, change payroll deduction amounts, and create purchase orders, none of which are functions needed for her to fulfill her day-to-day job responsibilities. We also noted that the Deputy Treasurer has full access to certain applications within the human resource, negotiations, payroll, and accounting modules, giving her access to maintain
leave accruals, create funds, and record receipts, none of which are functions needed for her to fulfill her day-to-day job responsibilities. Additionally, the payroll clerk has full access to certain applications within the accounting module, giving her the ability to perform budget transfers, create funds, and prepare journal entries, none of which are functions needed for her to fulfill her day-to-day job responsibilities.

The Treasurer, Deputy Treasurer, and payroll clerk have access to the user maintenance application within the District’s computerized financial system, which allows them the ability to add new users as well as change users’ passwords and rights. With this ability, these individuals are able to control and use all aspects of the financial software applications, which creates the opportunity for the manipulation and concealment of transactions.

Based on the weaknesses noted over the District’s fiscal management software, we performed a variety of tests of payroll payments, maintenance of leave accruals, and accounts payable payments, to verify that transactions during the audit period were appropriate. Our testing did not reveal any material exceptions.

Audit Logs

A computerized financial system should provide a means of determining, on a constant basis, who is accessing the system and what transactions are being processed. Audit logs (commonly known as audit trails) maintain a record of activity by system or application process. The audit log should provide information such as the identity of each person who has accessed the system, the time and date of the access, what activity occurred, and the time and date of logoff. Ideally, this audit log or audit trail would be reviewed by management or management’s designee, in order to monitor the activity of users who access the financial management software. This tool provides a mechanism for individual accountability, reconstructing events and problem monitoring.

The District’s computerized financial system does have the ability to generate reports needed to properly monitor financial activity. However, the District does not generate any reports from this audit log, and the District has not designated the responsibility of reviewing audit logs to someone independent of Business Office operations. This is a significant weakness that could allow unauthorized activities to occur and go unnoticed and unresolved.

Physical Security Over Network Servers

Maintaining adequate security over District assets helps to ensure that the items are protected from loss and used effectively for their intended purpose. District officials can establish security over IT systems and equipment by controlling access to servers and by physically securing servers. However, we found that the six network servers in
the District’s server room and another server located in the guidance office were not physically secured. In both cases, the network servers were located in unlocked rooms. As a result, unauthorized individuals could gain access during school hours to these assets in the absence of staff in the areas in which they are located, which could result in services being disrupted, costly equipment damaged, destroyed or stolen, and personal information being compromised.

Backing Up Data

Data should be backed up (i.e., copy made) on a routine basis and the backup copy stored at an environmentally and physically secure off-site location. We found the Board has not established policies or procedures for the back up of District information. Currently, District financial data is backed up to an off-site network server on a daily basis. However, non-financial data is backed up to tapes twice a week, which are stored on a shelf next to the network servers. The Computer Coordinator indicated that the backup tapes have not been periodically tested to verify the capability of restoring the District’s system. The District risks losing most, if not all, of its non-financial data if the system is compromised and a backup is not available to restore it to normal operations.

Disaster Recovery

The District’s internal control system should include a formal disaster plan to address the possible loss of computer equipment and data and establish procedures for recovery in the event of such a loss. The plan should detail the precautions to be taken to minimize the effects of any disaster and enable the District to either maintain or quickly resume its mission-critical functions. The plan should include a significant focus on disaster prevention. However, the Board has not established a formal disaster plan and consequently, 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 guidance on how to implement data recovery procedures.

Recommendations

15. The Board should adopt policies and procedures to strengthen internal controls relating to the use of complex passwords, enforcement of password changes on a regular basis, and the revocation of access rights after a set number of failed sign-on attempts.

16. District officials should evaluate employee job descriptions and assign computer system access rights that are limited to and match the respective job functions.

17. The Board should designate the responsibility for assigning user access rights to the computerized financial system and reviewing audit logs generated by the computerized financial system to someone independent of Business Office operations.
18. District officials should store backups of District information at an environmentally and physically secure off-site location. In addition, this data should be periodically tested to verify it is capable of restoring the District’s system.

19. The Board should adopt policies and procedures to strengthen internal controls relating to IT equipment storage, computer backup and disaster recovery.
APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

The District officials’ response to this audit can be found on the following pages.
November 9, 2007

Office of the State Comptroller
One Broad St. Plaza
Glens Falls, NY 12801

Dear [Name]

The Chateaugay Central School Board of Education and Administration have reviewed the findings of the Office of the State Comptroller Audit dated October 18, 200. The District welcomes the opportunity to use these findings to enhance our school district.

This letter is intended to present the District’s response to these findings, as required by General Municipal Law. Please know, the Board of Education and Administration have already taken steps to implement corrective action.

I have enclosed a copy of the District's Proposed Corrective Action Plan.

Sincerely,

Paul M. Harrica
Superintendent of Schools
PROPOSED

CORRECTIVE ACTION PLAN

FINANCIAL OPERATIONS

1. District officials should establish a comprehensive payroll processing policy that incorporates the duties, records and procedures needed to ensure that the processing of payroll is accurate, efficient, and appropriate.

   The District has established and implemented a system of checks and balances for reviewing its payroll processing procedures and will review it throughout the 2007-2008 school year. Quarterly testing will take place to verify that the process is working.

2. District official should evaluate the Business Office employees’ duties and responsibilities, specifically in the areas of payroll and cash receipts and disbursements, and where practicable, properly segregate duties. Where it is not practicable to segregate duties appropriate compensating controls should be used.

   The District has segregated the duties of the Business Office; specifically the District Treasurer no longer has any involvement with cash collection and receipts.

3. District Officials should ensure that complete and accurate monthly bank reconciliation’s are performed by someone independent of the cash-custody duties, ensuring that any differences disclosed by the reconciliation process are promptly identified and resolved.

   The District has segregated duties of the District Treasurer so that there is no involvement with cash collection and receipts. The District will develop a system to independently review bank reconciliation for verification.

4. The Treasurer should maintain control of her signature, or supervise the signature process for all District disbursements.

   The District purchased a locked filing cabinet located in the vault to secure the District Treasurer’s signature card. Only the District Treasurer is empowered to complete all District disbursements.

5. The Treasurer should ensure that blank check stock is only accessible to individuals that are authorized to sign checks.

   The District purchased a locked filing cabinet located in the vault for the storage of all blank check stock. Only the District Treasurer has access to this filing cabinet.
PROPOSED
CORRECTIVE ACTION PLAN
FINANCIAL OPERATIONS

6. District Officials should establish a comprehensive cash receipts policy that communicates the duties, records and procedures required for ensuring that the collection of monies, issuance of receipts, and deposit of monies received is properly carried out.

The District is developing a comprehensive cash receipts policy that will be reviewed and revised throughout the 2007-2008 school year. However, the District has already taken steps to insure that collection of money, issuance of receipts and deposits of money received are properly carried out. Receipts are now issued in sequence, with specific titled receipt books for specific funds. All deposits are made in a timely manner.

7. District Officials should ensure that cash and checks collected are deposited timely.

The District is developing a comprehensive cash receipts policy that will be reviewed and revised throughout the 2007-2008 school year. However, the District has already taken steps to insure that collection of money, issuance of receipts and deposits of money received are properly carried out. Receipts are now issued in sequence, with specific titled receipt books for specific funds. All deposits are made in a timely manner.

8. The Board should establish a comprehensive claims processing policy detailing instructions and expectations for a claims auditor.

The Board of Education has established a comprehensive review of all claims by an internal claims auditor. The internal claims auditor was appointed by the Board of Education at the re-organizational meeting and is not under the direct supervision of the Superintendent.

9. The Board should ensure that its appointment of internal claims auditor is not under the direct supervision of the Superintendent.

The Board of Education has established a comprehensive review of all claims by an internal claims auditor. The internal claims auditor was appointed by the Board of Education at the re-organizational meeting and is not under the direct supervision of the Superintendent.

10. The Board should ensure that all disbursements and manual checks, are supported, reviewed and approved by the claims auditor prior to payment.

The Board of Education has established, as part of its comprehensive review of all claims, that the internal claims auditor must review and sign all claims before any manual checks or disbursements are generated.
EXTRA CLASSROOM FUNDS

11. The Board and District officials should ensure that Fund accounts are maintained in accordance with District policy and the Regulations of the Commissioner.

The District has implemented procedures to ensure that the established District policy governing the operation of Extra Classroom Funds is being followed and that accounts are maintained in accordance with Commissioner Regulations.

12. The District official appointed, as faculty auditor should oversee the management of Fund monies in accordance with the Regulations.

The District appointed the Elementary Principal to be the fund faculty auditor who will oversee and review the management of Extra Classroom Funds. The faculty auditor will work in conjunctions with the internal claims auditor to review the management of these funds.

13. District officials should ensure that extra-classroom blank check stock is only accessible to individuals within the District that are authorized to sign extra-classroom activity checks. Additionally, the District should ensure that Fund monies are physically safeguarded.

The District purchased a locked filing cabinet that is located in the District vault and is only accessible to the Central Treasurer of the Extra Classroom Funds. All blank check stock, signature card and fund monies, (until deposited) are stored within this filing cabinet.

14. District official should ensure that cash and checks collected by extra-classroom activities are deposited timely.

In accordance with the established District Extra Classroom Funds policy, all cash and checks collected by extra-classroom activities are now deposited in a timely manner.

INFORMATION TECHNOLOGY

15. The Board should adopt policies and procedures to strengthen internal controls relating to the use of complex passwords, enforcement of password changes on a regular basis, and the revocation of access rights after a set number of failed sign-on attempts.

The Board of Education will develop and review polices and procedures to strengthen its internal control related to its computer system access during the 2007-2008 school year. These policies and procedures will include the use of complex passwords, enforcement of passwords changes and revocation of access rights after a set number of failed sign on attempts.
16. District officials should evaluate employee job descriptions and assign computer system access rights that are limited to and match the respective job functions.

The appropriate access rights have been evaluated for each business office employee and changes have been made to limit the available applications to only the employees who work directly with the program.

17. The Board should designate the responsibility for assigning user access rights to the computerized financial system and reviewing audit logs generated by the computerized financial system to someone independent of Business Office operations.

The District’s High School Principal has been assigned the responsibility for designating user access rights of the financial management system, and will monitor and review the audit logs. The High School Principal is independent of the business office.

18. District officials should store backups of District information at an environmentally and physically secure off-site location. In addition, this data should be periodically tested to verify it is capable of restoring the District’s system.

A daily back up of all District information had begun to take place at an environmentally and physically secure offsite location. Periodic testing of this system will take place to verify the process is working.

19. The Board should adopt policies and procedures to strengthen internal controls relating to IT equipment storage, computer backup and disaster recovery.

The Board of Education will develop and review it policies and procedures regarding IT equipment storage, computer back up and disaster recovery during the 2007-2008 school year as part of its comprehensive Board of Education Policy Review.
APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard District assets. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: financial oversight, cash receipts and disbursements, purchasing, payroll and personal services and information technology.

During the initial assessment, we interviewed appropriate District officials, performed limited tests of transactions and reviewed pertinent documents, such as District policies and procedures manuals, Board minutes, and financial records and reports. In addition, we obtained information directly from the computerized financial databases and then analyzed it electronically using computer-assisted techniques. This approach provided us with additional information about the District’s financial transactions as recorded in its databases. Further, we reviewed the District’s internal controls and procedures over the computerized financial databases to help ensure that the information produced by such systems was reliable.

After reviewing the information gathered during our initial assessment, we determined where weaknesses existed, and evaluated those weaknesses for the risk of potential fraud, theft and/or professional misconduct. We then decided upon the reported objectives and scope by selecting for audit those areas most at risk. We selected financial operations over the Business Office, extra-classroom activity funds, and information technology for further audit testing.

We focused our attention on whether adequate internal controls had been established over certain financial functions within the Business Office, specifically in the areas of payroll processing, cash receipts and disbursements, and claims processing. We interviewed officials, reviewed policy manuals, observed transactions, and examined financial records such as the general ledger, monthly trial balances, cancelled checks, cash receipt slips, cash receipts book, validate deposit slips, bank statements, bank reconciliations, payroll documents, and claims to determine the effectiveness of internal controls pertaining to payroll processing, claims processing, and cash receipts and disbursements and any associated effects of deficiencies in those controls.

Within extra-classroom activity funds, we reviewed all District policies relating to extra-classroom activities. We interviewed the central treasurer, observed transactions, and examined extra-classroom activity fund records such as the central treasurer’s ledger, cancelled checks, bank statements, validated deposit slips, deposit receipt forms, cash receipts, and cash receipts book, to determine the effectiveness of internal controls over extra-classroom activity fund functions and any associated effects of deficiencies in those controls.

Within information technology, we reviewed all District policies related to computer use and information technology. We interviewed the District’s Computer Coordinator specifically regarding network passwords, physical access to the system, controls within the financial management software, backups of data, and disaster recovery plans. We physically inspected the location of system equipment, viewed Business Office employees’ computer screens, and reviewed user access reports.
We conducted our performance audit in accordance with generally accepted government auditing standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.
APPENDIX C

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http://www.osc.state.ny.us/localgov/
## APPENDIX D
### OFFICE OF THE STATE COMPTROLLER
#### DIVISION OF LOCAL GOVERNMENT
AND SCHOOL ACCOUNTABILITY

Steven J. Hancox, Deputy Comptroller  
John C. Traylor, Assistant Comptroller

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