Pittsford Central School District
Internal Controls Over Selected Financial Activities

Report of Examination
Period Covered:
July 1, 2006 — January 31, 2008
2008M-46

Thomas P. DiNapoli
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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 Pittsford Central School District, entitled Internal Controls Over Selected Financial Activities. This audit was conducted pursuant to Article V, Section 1 of the State Constitution, and the State Comptroller’s authority as set forth in Article 3 of the General Municipal Law.

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

Respectfully submitted,

Office of the State Comptroller
Division of Local Government and School Accountability
The Pittsford 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 purchasing agent coordinates purchasing activities and the payroll supervisor monitors payroll transactions. The District has used the same computerized financial system for more than six years.

**Scope and Objective**

The objective of our audit was to determine if the District’s internal controls over payroll, purchasing and information technology were properly designed and operating effectively for the period July 1, 2006 through January 31, 2008. Our audit addressed the following related questions:

- Did District officials establish proper controls over overtime expenditures?
- Did the District have written agreements in place for payments to vendors for contractual services?
- Are internal controls over information technology appropriately designed and operating effectively to adequately safeguard District assets?

**Audit Results**

We found weaknesses in some of the District’s financial operations, caused by a lack of Board attention to these operations. At times, the Board had not established appropriate policies to guide employees’ actions, and at other times, District officials did not implement the policies. For example, the Board had not established an overtime policy and related procedures, and District officials did not establish appropriate controls over overtime expenditures. As a result, various employees received overtime pay of approximately $34,000 without pre-approval and $21,000 of this amount was paid without supporting documentation. As a result, there is an increased risk to the District of incurring excessive overtime and of making unauthorized and inaccurate overtime payments.

Although the Board has adopted a purchasing policy, the policy does not address the need for contracts for services. District officials did not enter into written agreements with various providers of services.
because of the lack of guidance from the Board. We selected 23 vendors of various services and found that for 17 of them, there were no written agreements. Total payments to these 17 vendors were approximately $252,000. Further, there was no indication that the Board approved these non-written agreements. Additionally, the invoices supporting these payments often lacked detail documentation of the specific services provided to the District. Due to the weaknesses we identified, we examined 133 payment vouchers for various services such as consultants, accountants, designers and others. For 58 of the 133 payments, totaling about $208,500, there was insufficient supporting documentation to describe the services provided to the District. As a result, District officials cannot be certain that they are making appropriate payments or receiving adequate services.

Internal controls over various aspects of the District’s information technology were lacking too. District officials did not protect District assets by ensuring that management reviews activity audit logs. Further, the Board has not adopted policies and procedures to address the level of access to confidential and sensitive information that is granted to financial system users. The Board has not established formal policies and procedures to address disastrous events that may result in the loss of critical functions.

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. Except as specified in Appendix A, District officials generally agreed with our recommendations and indicated they planned to take corrective action. Appendix B includes our comments on the issues raised in the District’s response letter.
Introduction

Background

The Pittsford Central School District (District) is located in the Towns of Pittsford, Perinton, Penfield, Mendon and Brighton, Monroe County and Victor in Ontario County. The District is governed by the Board of Education (Board) which comprises seven elected members. The Board is responsible for the general management and control of the District’s financial and educational affairs. The Superintendent of Schools (Superintendent) is the chief executive officer of the District and is responsible, along with other administrative staff, for the day-to-day management of the District under the direction of the Board.

There are nine schools in operation within the District with approximately 6,100 students and 1,150 employees. The District’s budgeted expenditures for the 2007-08 fiscal year were $100.2 million, which were funded primarily with State aid, sales tax, real property taxes and grants.

The Office of the Assistant Superintendent for Business provides the overall direction and leadership for the District’s Business Office, Operations, Maintenance & Security, Transportation and Food Services. Within the Business Office, the purchasing agent coordinates purchasing activities and the payroll supervisor monitors payroll transactions. These employees report directly to the District’s Director of Finance/Treasurer. The District has used the same computerized financial system for more than six years.

Objective

The objective of our audit was to determine if the District’s internal controls over payroll, purchasing and information technology were properly designed and operating effectively. Our audit addressed the following related questions:

- Did District officials establish proper controls over overtime expenditures?
- Did the District have written agreements in place for payments to vendors for contractual services?
- Are internal controls over information technology appropriately designed and operating effectively to adequately safeguard District assets?

Scope and Methodology

We examined internal controls over payroll, contractual services and information technology for the period July 1, 2006 through January 31, 2008.
Comments of District Officials and 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 C of this report.

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. Except as specified in Appendix A, District officials generally agreed with our recommendations and indicated they planned to take corrective action. Appendix B includes our comments on the issues raised in the District’s response letter.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of the General Municipal Law, Section 2116-a (3)(c) of the Education Law and Section 170.12 of the Regulations of the Commissioner of Education, 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*.
Overtime

A good system of internal controls consists of adopted policies, practices, and procedures to provide reasonable assurance that resources are properly accounted for and safeguarded. An important control over payroll overtime expenditures is written pre-approval of overtime work and subsequent approval of the employee’s timesheet for payment, which helps ensure that the District incurs only necessary overtime costs. Overtime logs indicate the date, time of day, and purpose of overtime and, combined with proper authorization, provide an acceptable method of documenting overtime records.

We identified instances where control weaknesses allowed employees to receive overtime pay without pre-approval and supporting documentation.

Overtime is normally generated for non-salaried employees after they have worked in excess of 40 hours in a work week. Employees are usually compensated for overtime at the rate of time and a half for excess hours worked on week days and Saturdays and double time for excess hours worked on Sundays and paid holidays. Overtime costs can increase when there is insufficient staffing. The District paid approximately $542,000 in overtime for the fiscal year 2006-07.

We reviewed the annual earnings for 25 employees in fiscal year 2006-07 who worked as custodians, buildings and grounds workers, cleaners, maintenance workers, and mechanics and determined that the District paid these 25 employees approximately $334,553 in overtime. The total overtime the District paid these employees represented approximately 28 percent of their total authorized salaries of $1,185,116.

We also selected and examined 45 bi-weekly timesheets paid between July 1, 2006 and January 31, 2008 for 20 employees. The overtime paid according to the 45 bi-weekly time sheets during this period amounted to approximately $34,000. In each case, the overtime was authorized after it had already been worked. In addition, 26 out of the 45 timesheets did not provide sufficient documentation as to why the overtime was necessary or what work was performed. This undocumented overtime amounted to approximately $21,000 of the total $34,000 overtime, or almost 62 percent of the total overtime paid for all 45 timesheets.
For example, a custodian’s total wages for the fiscal year 2006-07 were $45,714 of which $14,625 were wages paid for overtime worked, representing approximately 32 percent of his total wages for the fiscal year. In addition, a maintenance person’s total wages for the fiscal year 2006-07 were $53,468 of which $19,468 were wages paid for overtime worked, representing approximately 36 percent of his total wages for the fiscal year. We selected three of the maintenance person’s timesheets for testing and found that two of the three timesheets tested did not provide a description for the work performed or why the overtime was necessary. In one bi-weekly period we tested, the maintenance person worked 42.5 hours of overtime; 36.5 hours were paid at time and a half and six hours were paid at double time. In another bi-weekly period tested the maintenance person worked 34 hours of overtime; 27 hours were paid at time and half and seven hours were paid at double time. In each case there was no description noted for the work performed or why the overtime was necessary. In the third bi-weekly period we tested, the maintenance person worked 23.5 hours of overtime all paid at time and a half. In this instance, the District properly documented the work performed.

Because the District lacked an overtime policy and related procedures, District officials failed to ensure that overtime was pre-approved and documented to verify actual hours worked and to indicate the purpose of the overtime. As a result, District officials face an increased risk of incurring excessive overtime and of making unauthorized and inaccurate overtime payments.

**Recommendations**

1. The Board should adopt a formal overtime policy.

2. The Assistant Superintendent for Business should develop procedures to monitor and implement the overtime policy, once it has been adopted by the Board.
Contractual Services

The primary objective for internal controls over contractual services is to ensure that contractors are appropriately compensated and that the District receives the negotiated goods and services. To ensure that contractors are paid the compensation to which they are entitled, such payments must be clearly defined and authorized by the Board. Written agreements provide both parties with a clear understanding of the services that are expected to be provided and the amount of compensation for those services.

Although the Board has adopted a purchasing policy, the policy does not address contracting with the vendors providing services to the District. District officials did not enter into written agreements with various providers of professional and other services because of the lack of guidance from the Board. Further, there was no indication that the Board approved these non-written agreements. The invoices supporting these payments often lacked detail documentation detailing the specific services provided to the District.

We selected twenty-three contractors for testing that were paid approximately $453,500 to provide consulting, accounting, design and other services, during the period July 1, 2006 through November 30, 2007. Of this amount, we examined 133 payment vouchers for approximately $364,000 in expenditures.

For 58 of the 133 payments, totaling about $208,500 we found the District lacked sufficient supporting documentation for what services were provided to the District. For example, the District paid an educational consultant $76,364 in the 2006-07 fiscal year. The invoices that we reviewed did not describe the work that was performed, and were merely contractual progress payments.

In addition, we found the District lacked written agreements for 17 of the 23 vendors we selected for testing, and total payments to these 17 vendors totaled approximately $252,000. For example the District paid Pittsford Youth Services $79,506 during our scope period for counseling services. However District officials could not provide any written agreement between the District and Pittsford Youth Services. In addition, the invoices submitted to the District on a monthly basis only indicated counseling services and did not include supporting documentation detailing the specific services provided to the District.
Making payments for services without written agreements is a significant internal control weakness. The lack of written agreements provides no assurance that the amounts paid were appropriate. It also makes it difficult, if not impossible, to properly audit the claims prior to payment, particularly given the lack of detail on the invoices furnished by the vendor. The failure to adequately document the understanding of the services to be provided and the compensation to be paid can make it difficult to resolve any disputes that may arise between the District and the vendor.

Recommendations

3. The District should enter into written agreements with all vendors providing professional and other services and the District should retain these agreements as support for payments to these vendors.

4. District officials should only pay invoices for services that contain detail and supporting documentation to sufficiently explain the specific services provided to the District.

5. The Board should amend their purchasing policy to require that written agreements be executed with the providers of services.
The District uses a computerized financial system which presents internal control risks that must be addressed. District officials must establish policies and procedures for the administration of the system, including the level of access to confidential and sensitive information that is granted to financial system users. Management should review activity audit logs to provide a mechanism for individual accountability, reconstructing events and problem monitoring. Finally, a formal disaster plan is necessary to provide guidance on the prevention of loss of computer data in the event of a disaster.

**Access to Personal Information** – Maintaining adequate security over sensitive personal data helps to ensure that individuals are protected from loss and malicious misuse. Sensitive personal data can include items such as social security numbers; access to such areas should be limited to a select few key individuals that have a need to use the data. In the District’s financial system, we found that 25 out of 68 users have “default to view” access to sensitive personal information for District employees. District officials never modified the default settings in the financial system after the installation was first completed. Thus, this sensitive information is easily accessible to any one of these 25 employees with “default to view” access. An unauthorized user of the financial system could use an individual’s personal information for financial gain. After we brought this to the attention of District Officials they corrected the problem and have limited access to this information to select individuals.

**Audit Logs** – A computerized financial system should provide a means of determining, on a constant basis, the identity of the individual who accessed the system and what transactions were processed. Audit logs 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, management, or management’s designee, would review this audit log to monitor the activity of users who access the financial software. This tool provides a mechanism for individual accountability, reconstructing events and problem monitoring. However, District officials’ ability to detect and properly address unauthorized activities was limited because they did not review the audit logs available.
Disaster Recovery — An effective internal control system for information technology requires the adoption of a formal disaster recovery plan to prevent loss of the computer equipment and data, and procedures for the recovery of data in the event of a loss. A disaster recovery plan (DRP) — sometimes referred to as a business continuity plan (BCP) or business process contingency plan (BPCP) — describes how an organization is to deal with potential disasters. A plan consists of the precautions taken to minimize the effects of a disaster and to enable the organization to either maintain or quickly resume mission-critical functions. Typically, disaster recovery planning involves an analysis of business processes and continuity needs; it may also include a significant focus on disaster prevention.

The Board has not established formal policies and procedures to address disastrous events that may result in the loss of critical functions. Therefore the District does not have a formal disaster recovery plan, and in the event of a catastrophic event, District personnel will have no written guidelines or plan to follow. This could result in the District losing critical equipment and/or data with no ability to recover functionality. As of the end of field work, District officials stated they were in the process of developing a DRP.

**Recommendations**

6. The District should restrict access to sensitive personal information to employees and officials that utilize the information as part of their normal job function.

7. District officials should review users’ activities by examining audit logs.

8. The Board should adopt a formal disaster recovery plan.
APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

The District officials’ response to this audit can be found on the following pages.
May 28, 2008

Office of the State Comptroller
The Powers Building
16 W. Main Street, Suite 522
Rochester, NY 14614

To Whom It May Concern:

On behalf of the Board of Education and administration, we express our appreciation for the State Auditors’ assessment and recommendations included in the Comptroller’s Audit of the Pittsford Central School District for the period July 1, 2006 through January 31, 2008.

It was noted that the overall goal of the audit was to assess the adequacy of the internal controls put in place to safeguard District assets. To that end, the initial assessment of internal controls included a review of the entire organization, including but not limited to review of financial oversight, cash receipts and disbursements, purchasing, payroll, personnel services, capital projects, budget development and controls, revenue management, technology, personnel services and fixed asset inventory. Based on the initial assessment and as expressed at the exit conference, it was determined that adequate controls and limited risk existed in the areas reviewed. Moreover, it is paramount to note that the field auditors verbally reported and the audit report demonstrated no fraud, financial or ethical wrong doing, or material misstatement. Throughout the audit process, they acknowledged several “proactive control systems in place” as well as the level of knowledge and expertise of various District personnel. The auditors did, however, focus on three areas that could benefit from additional strengthening of internal controls: overtime, professional services and information technology.

In this document, we offer the following responses (required 30 day response) and actions (required corrective action plan) to the findings and recommendations to be included in your final audit report. Where necessary, additional background or supporting documentation is included in an effort to provide further clarification as to the basis of the findings.

### OVERTIME

#### I. Impact of Capital Project on Overtime Costs

The OSC Audit of District overtime concentrated its focus on the Operations & Maintenance/Buildings & Grounds Department with emphasis on the controls or levels of approval as well as the amount of overtime incurred by that department during the audit period. It is important to note that...
during that period the District was undergoing a large capital project and 2006-2007 was the height of the project. The $106 million project duration was four years and involved:

- renovations and additions to all 8 existing school buildings, increasing total square footage by almost 40% and grounds by 30%,
- constructing and commissioning a brand new 202,000 square foot middle school,
- renovating and adding to a 280,000 square foot fifty-year old school while it was in full use by students and community.

The aforementioned activities, while keeping the educational business of the District going with minimal disruption to the educational process, placed a great burden on the Operations and Maintenance staff. Utilization of District personnel was often imperative to containing costs and keeping the project on schedule. The District is fortunate to have in its employ various tradesman who are licensed and certified to perform plumbing, electrical and asbestos remediation work. When unexpected conditions occurred (as is often the case with an old building), District crews were better suited to address the issue in a timely fashion and at a lower cost than through a contract change order.

The chart below demonstrates that the increase in overtime was not indicative of a systemic problem, but was a temporary result of the capital project. It is important to note that during the current 2007-2008 year with the project substantially complete, overtime levels have returned to a level less than those prior to the project.

The second chart demonstrates that overtime for the department at its highest point was only slightly more than 1% of total salaries.
II. **Offsets to Incurred Overtime Expenses**

It should also be noted that certain factors offset or lessen the impact of the overtime incurred. These factors include:

1. **Community Use of Facilities** – When outside groups utilize District facilities beyond the normal school day, Board of Education Policy requires custodial personnel to be present to operate the facility, supervise its use and better assure a safe environment. Requesting groups are responsible to reimburse the District the custodial costs (overtime) incurred. During the 2006-2007 year, the $542,000 in overtime costs were offset by more than $56,000 in “Use of Facility” revenue.

2. **Substitute Time** – When possible, it has been a long standing practice in the District to use existing staff to cover for short-term absent custodial staff. Doing so saves on substitute costs, duplication of benefits, and provides a consistent level of knowledge about the building and its systems. In contrast, other organizations may have a separate budget line for substitute Operations and Maintenance staff. Based on substitute records for Pittsford’s fiscal year 2006-2007, the $542,000 of overtime costs were comprised of almost $200,000 in what would be considered substitute costs.

**Audit Recommendations & District Response:**

1. **The Board of Education should adopt a formal overtime policy.**
   
   Payment for overtime is governed by the Fair Labor Standards Act, the New York Labor Law and Collective Bargaining Agreements. Our research revealed that neither the New York State School Boards nor Erie #1 BOCES Policy Services have an “Overtime Policy.” After consultation with legal counsel and the New York State Education Department, no legal basis was found to require a Board Policy for overtime. Therefore, the District disagrees that the lack of a specific policy resulted in a lack of controls or Board oversight. Procedures already in place for overtime were provided to the auditors on April 20, 2008. The administration was aware of and continues to monitor overtime through monthly, quarterly and annual reports.

2. **The Assistant Superintendent for Business should develop procedures to monitor and implement the overtime policy, once it has been adopted by the Board.**
   
   a. As previously mentioned, the Assistant Superintendent has prepared and provided the audit team with the overtime approval process. There is a level of pre-approval of overtime when the building administrator signs/approves the building use request form and schedules the appropriate custodial personnel to work the event. The building administrator then signs the time sheet after the overtime is worked and the using agency is noted on the timesheet for invoicing by the Business Office.

   b. Collective Bargaining Agreements in the sections related to overtime require “prior approval by the employee’s supervisor.” Prior approval may be verbal or in existence on different documents such as Use of Facility forms.

   c. The Assistant Superintendent receives monthly overtime reports that provide current, trend and historical comparative data, both from a time incurred and budget expended standpoint. The Assistant Superintendent meets regularly with various
personnel to review the data, obtain justification and to forecast/control budgetary impact. Prior to the audit, the new Director of Operations and Maintenance implemented additional internal departmental procedures to record approval, review status, assign work and trace back to the work order system. Directives have already been given regarding providing work order numbers and appropriate justification on timesheets.

d. The Assistant Superintendent reviews various payroll records as part of his normal certification of payroll duties. The adequacy of supporting documentation on timesheets has been reviewed and compared to work order status reports.

e. Subsequent to the exit conference, a large number of documents were provided to the auditors demonstrating that additional work was assigned to District crews to support the capital project. The Administration and Board of Education were aware of the amount of overtime being incurred and monitored it closely. However, the overtime was necessary to provide safety and comfort for students and staff, to keep the project on schedule and to be cost effective.

3. **District officials should consider performing an analysis to determine if they could reduce payroll overtime costs by hiring additional employees.**
   
a. The District has performed such an analysis and review. However as set forth above, it was determined that the capital project was temporary and to hire additional staff is a long-term commitment with significant obligations. For example, if an existing person performs additional duty work, the District pays for the job to be performed. While hiring an additional person may be at a lower hourly rate, the cost increases exponentially when training, benefits and other associated costs are included. If the new hire is retained, then the District also inherits the long-term expense of retirement pension and health insurance costs.

b. We also reviewed the cost of short-term overtime as compared to contracting for the same service. An example of this was provided to the auditors when the District considered contracting snow removal at the Calkins Road Middle School site during construction. Quotations received were cost prohibitive as compared to utilizing District personnel and equipment.

**Summary of District Action - Overtime**

1. The Assistant Superintendent for Business, Director of Finance and Director of Human Resources will:
   a. Continue to monitor and analyze monthly overtime reports and meet with related administrators and supervisors as needed.
   b. Communicate and train District personnel on the appropriate process and required supporting documentation.
   c. Continue the review of timesheets on a biweekly basis by at least six people with varying oversight capacity to ensure accuracy, appropriateness of the work, completion of the work, invoicing of outside groups, budget forecasting and supporting documentation.
   d. The Board of Education Audit Oversight Committee has requested the Internal Auditor to perform a recurrent analysis of the overtime process, documentation and
controls. No anomalies have been reported. The Internal Auditor agrees with the Comptroller’s Auditors’ verbal comment that improvements have been made and the District is proactive in continually reviewing and updating procedures in the interest of strengthening controls.

**PROFESSIONAL SERVICES**

In the OSC’s Audit Report, comments and recommendations were made regarding several transactions entitled in the report as “Professional Services.” The two areas of concentration in the audit dealt with obtaining written contracts and paying from detailed invoices. After a careful analysis of these transactions and the legal documents governing them, the District concludes that several of the transactions were public works or contractor services and were improperly labeled as “professional services” in the audit. The District has formulated its responses to the audit recommendations below using General Municipal Law (GML §§ 103-104) and the New York State Education Department, Management Services Purchasing Handbook, a guidance document for schools, extrapolated from law.

**Audit Recommendations & District Response:**

1. *The District should enter into written agreements with all vendors providing professional services and the District should retain these agreements as support for payments to these vendors.*
   a. According to General Municipal Law and the NYSED Purchasing Handbook, “professional services” are not synonymous with all contractual transactions. Professional services are generally for significant cost items requiring a specific expertise and/or of a confidential nature as well as other factors that coincidentally make the purchase of such service exempt from bidding laws as per GML § 103.
   b. The NYSED Purchasing Handbook states that subsequent to obtaining a quotation or conducting a formal bid in accordance with GML §§ 103-104, “A contract or formal bid (usually for purchases and/or services subject to provisions of the General Municipal Law) may be awarded by a formal written contract or by the issuance of a purchase order”. Therefore the District concludes that a purchase order legally serves as a contract and is not simply “an obligation to pay.” Twenty-six of the thirty vendors examined had either a written agreement and/or a purchase order. One payment was for the professional services of a school physician as required by NYS Education Law. As also required by law, the School Physician is appointed annually by the Board of Education to perform the duties and services of the position for a specified annual fee. The School Physician submitted detailed invoices throughout the year detailing the dates and services provided.
   c. Nominal charges for a minor roof leak repair do not appear to constitute a “professional service.” Of the thirty vendors examined by the OSC, eleven were for minor repairs to refrigeration, roof and ventilation systems. Seven of the thirty were for amounts less than $1,000.
d. When professional services or consultant services are sought, the Director of Human Resources executes and retains a written agreement with the vendor. The agreement defines the services to be provided, what if anything is needed from the District to facilitate the service, compensation, terms of service, timeline, cancellation and additional protection to the District by requiring the provider be insured and the District be named as an additional insured.

If a contractual relationship forms without the aforementioned process, the Business Office serves as an additional “stop-gap” measure. If a purchase order request or an invoice is received, a contract serves as authorization to pay. If no contract is apparent, the Director of Human Resources and the supervising administrator are notified. Pursuant to a memorandum provided to the audit team, from the Director of Human Resources at the direction of the Superintendent, the Business Office will not execute payment until it is presented with an appropriately detailed agreement or purchase order and matching invoice.

2. District officials should only pay invoices for professional services that contain detail and supporting documentation to sufficiently explain the specific services provided to the District.

This is an area where we strive to make improvements. A few of the invoices would benefit from additional detail and we agree need supporting documentation. Twenty-seven of the thirty vendors had appropriately detailed invoices. One of the vendors was providing professional educational services under a written contract in the capacity of an interim administrator. As such, the consultant was subject to regular reports to the Board of Education and observations by the Superintendent that were also shared with the Board of Education. Per the contract, the compensation was to be paid on a scheduled basis for satisfactory services provided.

3. The Board should amend their purchasing policy to require that written agreements be executed with the providers of professional services.

Two new policies have already been adopted and implemented in support of the existing purchasing policy that:

i. Utilize General Municipal Law to clearly define what constitutes a “professional service contract”;

ii. Clearly identify the authority of the Superintendent and the Board of Education in entering into contracts for professional services;

iii. Require semi-annual reports to the Board of Education on professional service providers of record; and

iv. Stipulate when a written agreement is required or a purchase order may be used.

District Action – Professional Services

The Assistant Superintendent for Business, Director of Finance, Director of Human Resources and Internal Claims Auditor will:

a. Continue to utilize and enforce the process described above in item 1.d.
b. Prepare and implement regulations to assist in the implementation of the new policies.
c. Provide training and an updated guidance document for District faculty and staff.
d. Communicate the appropriate process for consultant services, new policies and the reason for compliance to all administrative staff by the District’s External Auditor and Assistant Superintendent for Business.
e. Utilize this audit finding as a tool to impress upon District employees and contractors the need for a complex process and conformance with the process.

In addition, the Board of Education Audit Oversight Committee has requested the Internal Auditor to perform an analysis of professional services/contractor process, documentation and controls. No anomalies have been reported. The Internal Auditor agrees with the District that a purchase order is a suitable written agreement, and also has advised that professional services are exclusive of a minor public works transaction. Over the past two years, improving the documentation for using consultants and contractors has been a significant focus of the District administration. The District is committed to continue its goal to strengthen controls and put into place systems that will provide early detection of any errors or omissions.

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**INFORMATION TECHNOLOGY**

The audit report examined the District’s financial management software and related security as well as the District-wide technology and network infrastructure. The Board of Education was pleased to hear from the auditors that the District is ahead of most with security and system integrity. The field auditors commented that “we learned more from your technology department than we do at some of our formal trainings.” This was an indication that the District has been on the right path in taking system integrity seriously and investing time and resources in having our systems tested, commissioning a risk assessment and compiling plans and policies to address potential concerns.

**Audit Recommendations & District Response:**

1. The District should restrict access to sensitive personal information to employees and officials that utilize the information as part of their normal job function.
   a. When the software vendor installed the system in 2002, a default box was left unchecked that permitted some users with lookup rights for certain accounts payable and human resource information to be able to view Social Security numbers. As soon as the auditors brought this issue to the District’s attention, the District’s in-house systems technician corrected this situation. Currently only those responsible for the entering of employee data (Human Resources) and for paying employees (Payroll) have access to this information as is appropriate. It is important to note that no unauthorized access to the information occurred.
   b. At that time and currently, the District had Board of Education Policy 5672: Information Technology Breach and Notification in place. This policy directly addresses what should occur if a breach of the sensitive information is discovered.
2. **The District officials should review users’ activities by examining audit logs.**
   a. As previously provided, the Business Office has a rather extensive system of checks and balances in regard to the financial software system and electronic transaction activity. These procedures have proven successful and are effective “detection tools.” The audit log is an extensive and cumbersome document. It does not lend itself well to being a detection tool. It is more useful as an investigative tool if an anomaly is detected.
   b. The District has worked with the software vendor to obtain the audit logs and utilize report writing and other software that will assist in making the voluminous and confusing information easier to read and a more useful tool.
   c. Periodic review of the audit logs will become part of the claims auditor process.
   d. Review of the audit logs has been appended to the Internal Audit protocol.

3. **The Board of Education should adopt a formal Disaster Recovery Plan (DRP).**
   a. As mentioned by the auditors at the exit conference, the District has been proactive in defining and addressing technology processes, systems and equipment concerns.
   b. The District initiated a technology security risk assessment in the 2006-2007 school year. The resulting assessment report was shared with the OSC auditors. The report recommended approaches to facility security and access to technology, as well as access to desktop stations and password security. The District has been diligently implementing various security measures as resources become available.
   c. As of May 23, the new Network Operations Center (NOC) will be complete and operational. This will provide the District with two redundant NOC’s. Data is recorded at several locations throughout the District in various formats to provide additional levels of security and continuity during the time of a disaster. The NOC is an interior concrete space, with access only through a swipe card protected door so a record of admittance will be maintained. The center also has a fire suppression system, dedicated cooling system with alarm and pager callout if temperature exceeds parameters, and a dedicated filtered backup generator.
   d. The financial software application server is also duplicated at a location off site. Furthermore, we can run our data on other area school district servers using the same application software.
   e. We have made arrangements to mirror our financial software and be fully operational within one hour from a server sight located more than two hundred miles from the District.
   f. The Director of Technology, in cooperation with the Business Office, BOCES and the network security consultant, has assembled a Continuity Plan Overview and is in the process of developing a comprehensive Disaster Recovery Plan.
   g. Since many of the District’s applications are proprietary at Monroe #1 BOCES, we are working with BOCES to assure alignment of our Continuity Plan with theirs.
   h. The Board of Education has adopted a policy regarding Disaster Recovery and Continuity Planning.
District Action – Information Technology

1. No further action is required in regard to access to personal information. Resolution to the finding was implemented to the satisfaction of the auditors prior to the end of audit field work. The District will, however, continue to be vigilant in finding other areas of potential weakness, and has requested a similar review become a part of the internal and external audit programs.

2. The District will continue to work with the software vendor to create and implement various reports and organization of the extensive audit log data to make it a more effective detection tool rather than just a comprehensive investigation tool. The Business Office will continue to rely on its effective and successful detection process and continue to test its process as part of the annual Internal Audit Risk Assessment to identify and address any findings should they occur.

3. The District will:
   a. Commission the new Network Operations Center this month to provide an added level of security and redundancy.
   b. Continue to work with BOCES and other related parties to complete the detailed plan that has been in process.
   c. Finalize plans to work with a neighboring district to run an accounts payable process on the other’s system to test the procedures and cutover to a parallel system should the need arise.

Conclusion
Again, on behalf of the Board of Education and administration, we wish to express our appreciation for the recommendations provided by the New York State Comptroller. We look forward to and are hopeful that in the future the Office of the State Comptroller can assist schools by providing best practices found during its audits, sample policies and procedures and obtaining advice on financial matters when needed. We will work diligently to not only implement but monitor any actions taken as a result of this audit. We appreciate the verbal assurance of the field auditors that “no fraud or material misstatement or unethical wrongdoing was found.” We are committed to continue to work hard to insure our controls and detection abilities are effective and timely.

Respectfully Submitted,

Mary Alice Price
Superintendent of Schools

Ray Brown
President, Board of Education

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APPENDIX B

OSC COMMENTS ON THE DISTRICT’S RESPONSE

Note 1

The District has provided detailed information justifying the benefits provided by the overtime expenditures for the Operations & Maintenance/Building & Grounds Department. District officials have also provided a valid reason to use overtime instead of hiring additional employees. However, the focus of our audit was on whether the overtime was properly documented and approved, not on the costs or benefits attributed to the overtime. As noted in our report, we identified instances where control weaknesses allowed employees to receive overtime pay without pre-approval and supporting documentation, which increases the risk of waste, fraud or abuse occurring.

Note 2

Although there is no legal requirement that the District adopt a formal overtime policy and develop procedures to implement and monitor the policy, we believe it to be a good business practice and recommend that they do so because of the weaknesses that we identified and reported on.

Note 3

During the course of our testing, we requested written documentation of approved overtime and of the overtime approval process and were told that there was none. Verbal approvals or approvals that may not be readily accessible in other documents, such as Use of Facilities forms, are not a reliable and consistent method to document the approval and usage of overtime. The procedures mentioned in the District’s response letter, section 2.c. specifically, were not in place when we conducted our testing and only apply to maintenance workers and not to custodial staff. We reviewed various records during the course of our testing and found no indication that the overtime was pre-approved and no written justification regarding the need for the overtime. While it appears that the Assistant Superintendent may have performed some high level analysis of overtime, there was no clear written guidance to supervisors on what was to be considered sufficient supporting documentation for the approval of overtime. It appears that the District has recently initiated some procedures to more closely monitor overtime usage, and as we stated earlier, we recommend that a formal policy and procedures be developed to implement this. As we have made clear, the purpose of this audit was determine if overtime was properly documented and approved, not whether the overtime was necessary.

Note 4

We have removed this recommendation from the report because District officials have provided a valid reason to use overtime instead of hiring additional employees.

Note 5

We have modified our report and recommendation to reflect the fact that some of the payments were for public works or contractor services. However, the recommendation that written agreements be
executed with providers of professional services also applies to providers of other services to the District.

Note 6

The purpose of a contractual agreement is to provide both parties with a clear understanding of the services that are expected to be provided and the amount of compensation for those services. In some instances a purchase order may be utilized instead of a formal written agreement. In either case the documents should specify essential information related to the contractual agreement such as the goods and services to be provided; price, method and timing of payment; performance measures to evaluate the contractor; person to whom the contractor will report to at the district and the duration of the agreement. The seven purchase orders that we reviewed lacked essential elements and do not adequately protect the interests of the District. For instance, the purchase order issued to Pittsford Youth Services, one of the examples in our report, only includes the item description “06/07 Counseling Services.” Four of the purchase orders for the 2006-07 fiscal year included a statement that an attachment was enclosed. We requested the attachments and were furnished with three Memorandums of Agreement for the 2007-08 fiscal year that were signed by the District and the contractor well after the start of the fiscal year and after the completion of our audit fieldwork (during and after February 2008).

Note 7

We have modified our report by removing vendors with payments totaling less that $1,000 in a fiscal year.

Note 8

During the course of our audit we requested written agreements with service providers that we selected for testing. According to the Director of Human Resources, various vendors selected did not have written agreements with the District. After we brought this matter to the Superintendent’s attention, the Director of Human Resources sent out a memo, dated January 17, 2008 to the Director of Finance stating that “any individual providing professional / consultant services for the District who is not a District employee must have either a consultant contract in place and signed by the Superintendent or a quotation and purchase order in place, accompanied by a memo describing the arrangement and signed by the Superintendent.” While these guidelines appear to be good procedures to follow, it is clear that they were not in place when we reviewed the vendor payments.

Note 9

The District’s response is incorrect. Our detailed testing indicated that 58 of the 133 payments, totaling $208,580 lacked sufficient supporting documentation for what services were provided to the District. For example, the District made 11 payments to a communications consultant totaling over $15,000 during the audit period. The invoices did not provide specific details of what work was performed, when the work was performed or the unit rate charged by the vendor.
APPENDIX C

AUDIT METHODOLOGY AND STANDARDS

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

- For payroll, we conducted tests of payroll and related time cards, collective bargaining agreements, leave accrual, and payroll earnings records to determine if the controls with respect to overtime were adequate.

- For purchasing, we interviewed the purchasing agent, reviewed bid documents, resolutions and payment vouchers to determine if payments to the respective professionals and other vendors were made in accordance with written contracts.

- For information technology, we interviewed the Director of Technology and the software applications coordinator, as well as reviewed District policies and procedures.

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.
APPENDIX D

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# APPENDIX E

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