

Hudson Falls Central School

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November 14, 2007

[REDACTED]
Office of the State Comptroller
One Broad Street Plaza
Glens Falls, NY 12801

Dear [REDACTED]

The Board of Education, on behalf of the residents of the Hudson Falls Central School District, would like to thank the NYS Comptroller's Office for the hard work and comprehensive effort put forth by the team from the Glens Falls office. The Board also welcomes the opportunity to respond to the NYS Comptroller's Audit of ***Internal Controls over Selected Financial Operations***.

The Board of Education and the Administration are aware that the Hudson Falls Central School District is first and foremost an educational institution and as such, should be our focus. At the same time, we are cognizant that school systems are also multi-million dollar entities which should be subject to the same internal controls and segregation of duties as private industries. The challenge to any enterprise is to put in place procedures and policies that are effective while not being cost-prohibitive. This is a greater challenge to the Hudson Falls Central School District because this is a district with high levels of poverty. As such, increases in staffing can only be used as a last resort. It is important that the District remain sympathetic to the needs of the students to receive a quality education and the ability of the community to provide for it. We welcome the opportunity to work with outside agencies to review strategies to reduce District costs and to strengthen controls intended to efficiently and effectively safeguard District assets.

It was reassuring to read this report and despite some technical weaknesses noted, the District has not encountered any fraud, waste or abuse in the areas tested. Overall, the audit report was indicative of the dedication and integrity of the business office staff. The district has been fortunate to hire a new Treasurer with auditing experience, which allows her to make the necessary changes to allow the District to be auditable.

CORRECTIVE ACTION PLAN FOR THE HUDSON FALLS CENTRAL SCHOOL DISTRICT

Information Technology

The Board of Education has chosen to appoint the Director of Business Services as the system administrator. Although this position remains in the business office, the Board has determined that the individual in this position will have the most knowledge and understanding of the software involved. The ability to ensure the appropriate segregation of duties and to review user rights, coupled with the comments at the exit meeting, make this a very practical recommendation. During the course of the audit, it came to our attention that upgrades conducted by the software vendor resulted in compromising the integrity of the user rights. It is important to note that not only user rights should be segregated as to proper job duties but also be periodically reviewed to ensure the integrity of the system. This process must be done in a timely manner therefore it is imperative that someone with a working knowledge of the software be able to perform these duties. As a result, the system administrator will be conducting reviews of user rights during the course of business and after every software upgrade.

SEGREGATION OF DUTIES

Purchasing

As of July 2007, the District uses electronic purchase orders. This has removed many of the overlapping duties that were performed by the accounts payable clerk. This position will no longer assign or enter P.O. numbers into the system. The requisition will be done remotely at building or departmental locations with approval coming from building principals or department heads. These are then electronically sent to the purchasing agent for final approval. The purchasing agent controls the print function and has control over the signature disk. It clearly states on the new purchase order that it is not valid without this signature. The accounts payable clerk distributes the vendor, receiving and requisitioner copies, and maintains the finance and numerical copies for her records.

The check stock is kept locked in the business office and the Director of Business Services maintains control over the key. We are currently requesting that the software vendor to provide us with a copyrighted signature disk, but until such time, mitigating controls have been put into place. The Treasurer no longer has the ability to do any data entry duties. A "check waiting to print" report is run prior to printing any checks. This report is compared to the schedule that is generated after the checks are run. The

accounts payable clerk does not have the ability to “close” schedules; therefore she may not add or alter any checks after they are printed.

Payroll

The process of segregating payroll and human resources is currently underway. Many of the recommendations offered by the Comptroller’s Office are actually linked to the system administrator weakness mentioned prior. The system administrator and the treasurer are currently reviewing all user rights within the software to ensure that duties are segregated. Since payroll is an extremely time-sensitive function of the school district, compensating controls have been put in place to help mitigate concerns and expedite this deadline-oriented task of the Business Office.

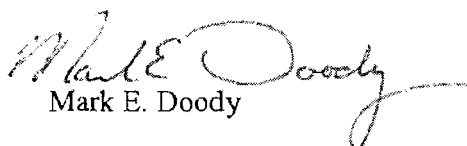
These controls include, but are not limited to, the periodic review of payroll personnel timesheets and attendance records by the Treasurer. Payroll is now being encumbered to help maintain the accuracy of contractual payments. The Human Resource and Payroll rights have been segregated by the system administrator within the software. The person responsible for processing payroll can no longer add staff. Given personnel limitations this has proven to be a challenging task.

Claims Process

The district is in agreement with all recommendations set forth by the Comptroller’s office and has implemented them.

We again thank you for the opportunity to respond and we look forward to working with your office in the future.

Sincerely,


Mark E. Doody

MED:jc

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, and payroll and personal services.

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 information technology, payroll, purchasing, and claims processing for further audit testing.

During this audit, we examined the records and reports of Hudson Falls Central School District for the period July 1, 2005 through February 8, 2007. To accomplish the objectives of the audit and obtain valid audit evidence, our procedures included the following steps:

- We interviewed and observed appropriate District officials and employees to learn about the user rights assignment in the accounting software. We reviewed the user rights report for each individual employee to assess their access rights in relation to their job duties.
- We reviewed all pertinent policies and procedures and various records for the payroll function. We interviewed and observed all appropriate District officials and employees to learn about procedures used to process payrolls.
- We interviewed and observed appropriate District officials and employees to learn about the purchasing function. We reviewed all pertinent policies and procedures for the purchasing function. Based upon the weaknesses discovered in the auditing of claims, we selected a judgmental sample of 118 claims that totaled \$2,075,246. Our objective was to determine if they were properly authorized, documented, itemized (i.e., with description of purchase), approved, and reviewed to verify the purchase was an appropriate District expenditure. Based on the weaknesses noted in the warrant process, we tested 75 items totaling \$344,804 to determine if items were recorded on a warrant.

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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12/30/07

District: Audit findings acted on

By **OMAR AQUIJE**
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HUDSON FALLS ♦ Changes to policies and procedures have been made to ensure the Hudson Falls Central School District business office functions at top form, school officials say.

This is the result of a state comptroller's audit that found the district had no written procedures for reviewing purchases. In addition, certain duties in the business office were not divided among employees.

The comptroller's office recommends that districts create and follow policy and procedures that outline the steps in which purchases are made. By not having a proper system in place, a district is in risk of incurring unnecessary expenditures and allowing fraud, abuse and misconduct occur.

The same goes for segregating the duties in a business office to ensure there is more oversight to prevent and detect errors and fraud.

Auditors made seven recommendations, all of which have been met, said Superintendent of Schools Mark Doody.

"I think overall, we have always felt our business office operated at a high level and we

think this audit certainly supported that," Doody said. "It gave us an opportunity to improve certain areas to ensure the public that abuse or fraud will not take place."

Doody said he was not surprised that the district was found to not have divided certain duties among employees in the business office. He said previous audits — done by firms — mentioned that the district had some employees do multiple duties.

No changes were made, however, because the school board wanted to avoid hiring more staff to save money. When hiring is done, it usually occurs in areas that involve education.

State auditors had recommended that duties such as authorizing transactions, check disbursements and the payroll process be shared by others rather than handled by the payroll clerk.

Among the changes the district made was having the treasurer periodically review payroll information.

The audit covered finances from July 1, 2005, to February 8, 2007.

The Comptroller's audit is intended to improve how officials manage their districts. All schools in New York are being audited.