



Deer Park Union Free School District Internal Controls Over Selected Financial Operations and Disclosure of Interest

Report of Examination

Period Covered:

July 1, 2006 — April 30, 2008

2009M-43



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

June 2009

Dear School District Officials:

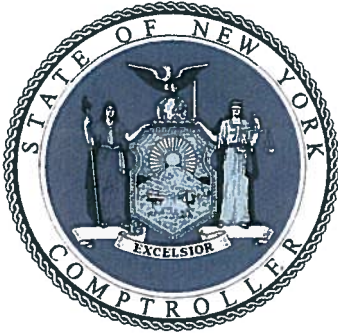
A top priority of the Office of the State Comptroller is to help school district officials manage their districts efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support district operations. The Comptroller oversees the fiscal affairs of districts statewide, 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 Deer Park Union Free School District, entitled *Internal Controls Over Selected Financial Operations and Disclosure of Interest*. This audit was conducted pursuant to Article V, Section 1 of the State Constitution, and the State Comptroller's authority as set forth in Article 3 of the General Municipal Law.

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

Respectfully submitted,

*Office of the State Comptroller
Division of Local Government
and School Accountability*



State of New York
Office of the State Comptroller

EXECUTIVE SUMMARY

The Deer Park Union Free 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.

There are six schools in operation within the District, with approximately 4,500 students and 750 employees. The District's Transportation Department maintains on-site fueling facilities for the District's buses, security vehicles, and maintenance equipment. General Municipal Law (GML) and District policy require District officials and employees to disclose any interests¹ they may have in District contracts, including interests that are not prohibited. Finally, the District uses a computerized financial software application for its financial records and accounting transactions.

Scope and Objective

The objective of our audit was to examine the District's internal controls over selected financial operations for the period July 1, 2006 to April 30, 2008. Our audit addressed the following related questions:

- Are internal controls over the District's information technology system appropriately designed to adequately protect electronic data?
- Did District officials appropriately monitor compliance with their adopted code of ethics to effectively detect and prevent potential conflicts of interest?
- Are internal controls over fuel inventories appropriately designed and operating effectively?

Audit Results

The Board and District officials need to establish better policies and procedures over several aspects of the District's operations in order to better safeguard public funds. For example, District officials have not developed procedures for assigning, reviewing, and updating user access rights to the financial software application, allowing seven of the nine employees tested to have access rights that were not

¹ I.e., receiving a direct or indirect monetary or material benefit as a result of a contract

needed for their jobs. Further, the District has no disaster recovery plan to safeguard computerized financial data from unauthorized access or potential loss. These control weaknesses place the District's critical financial data at an increased risk of loss or misuse.

Additionally, one Board member did not disclose his employment with a copy machine firm that has a vendor contract with the District. During our audit period the District paid the vendor approximately \$195,000. Although this individual's interest in the firm was not prohibited, disclosure is still required by GML as well as the District's code of ethics. The Board's failure to know and enforce the complete disclosure requirements increased the risk that conflicts of interest and prohibited transactions could occur. After we raised this issue, however, each of the District's Board members publicly disclosed their employers.

Finally, the Board and District officials did not develop written policies and procedures for monitoring vehicle fuel inventories, did not establish proper controls over fuel access, and did not ensure that fuel dispensing logs were properly kept. The District purchased approximately \$459,000 of fuel during our audit period. The amount of fuel pumped was not reconciled to fuel delivery records, physical inventory readings, or vehicle-specific usage. As a result, District officials have no assurance that fuel is used only in authorized District vehicles for legitimate District business. Due to these inadequate controls over fuel operations and recordkeeping, the District's fuel inventory is at an increased risk of loss, waste, or misuse.

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 agreed with our recommendations and indicated that they have initiated, or planned to initiate, corrective action.

Introduction

Background

The Deer Park Union Free School District (District) is located in the Town of Babylon, Suffolk 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 six schools in operation within the District, with approximately 4,500 students and 750 employees. The District's budgeted expenditures for the 2007-08 fiscal year were about \$90.1 million which were funded primarily with State aid, real property taxes, and grants.

The District maintains fuel pumps on its premises for employees to fuel District buses and other District-owned vehicles and equipment. Additionally, General Municipal Law (GML) and the District's Board-adopted code of ethics prohibit District officials and employees from having an interest² in any District contract that would cause their public responsibilities to conflict with their personal business interests. Further, they must disclose any interests – prohibited or otherwise – in actual or proposed District contracts. The District uses a financial software system to store its financial data and process its accounting and reporting transactions.

Objective

The objective of our audit was to examine internal controls over selected financial operations. Our audit addressed the following related questions:

- Are internal controls over the District's information technology system appropriately designed to adequately protect electronic data?
- Did District officials appropriately monitor compliance with their adopted code of ethics to effectively detect and prevent potential conflicts of interest?
- Are internal controls over fuel inventories appropriately designed and operating effectively?

² I.e., receiving a direct or indirect monetary or material benefit as a result of a contract

**Scope and
Methodology**

We examined the District's internal controls over information technology, interests in contracts, and fuel inventories for the period July 1, 2006 to April 30, 2008.

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 agreed with our recommendations and indicated that they have initiated, or 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, a written corrective action plan (CAP) that addresses the findings and recommendations in this report must be prepared and forwarded to our office within 90 days. To the extent practicable, implementation of the CAP must begin by the end of the next fiscal year. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. The Board should make the CAP available for public review in the District Clerk's office.

Information Technology

The use of information technology (IT) affects the fundamental manner in which the District processes, records, and reports financial transactions. Therefore, the IT system and the data it holds are a valuable District resource. District officials are responsible for developing an effective system of internal controls to safeguard computerized data from loss and misuse. It is important that these controls include policies and procedures to control and monitor access to financial data. Additionally, a formal disaster recovery plan is an essential control to minimize the damage that a disaster would cause to the District's operations if the IT system fails.

The District uses a financial accounting software application (financial software) to maintain the District's financial data and process accounting transactions. We examined controls over the District's computerized financial operations and found that District managers have not effectively addressed the safeguarding of computerized financial data against unauthorized access or potential loss in the event of a disaster. As a result, critical financial data is subject to an increased risk of loss or misuse.

User Access — To help ensure the proper segregation of duties and internal controls, a computer system should allow users to access only those functions that are necessary based on their job descriptions and responsibilities. User accounts provide a means to identify and differentiate users and, therefore, to control electronic access. Normally created by the system administrator, user accounts contain user-specific information such as passwords and access rights to files, applications, and other computer resources. District officials must ensure that user access rights are appropriate to employees' job descriptions and levels of responsibility, and that those rights are promptly adjusted or deactivated when employees' responsibilities change or upon their separation from District service.

The District's financial software comprises modules that segregate various financial recording and reporting processes. Available access privileges include the ability to add, update, delete, and print transactions within these modules. When such access is properly restricted according to users' job duties, a proper segregation of duties is maintained so that no individual user can control multiple aspects of a financial transaction.

District officials did not effectively safeguard the District's computerized financial data, and had no policies or procedures detailing the authorization and documentation requirements for user

account additions, deletions, or changes. We compared the assigned user access rights to the job descriptions of nine employees who used the financial software and found that seven of these employees³ had access rights that were not in accordance with their job functions. For example, the District Treasurer (Treasurer) had unrestricted access privileges to the financial system which were excessive for the responsibilities of that position. These privileges allowed the Treasurer to assign and change users' access permissions, including her own; to add, update, or delete transactions within all modules of the financial software, including accounting, requisition, and payroll; to maintain the master vendor list; and to override automated system controls, in addition to other capabilities. Our audit found no evidence of inappropriate transactions. However, the failure to establish policies and procedures for access to the District's computerized financial data can result in unauthorized access to sensitive information, manipulation of District records, and the loss or destruction of critical or confidential data.

Disaster Recovery Plan — Potential disasters that could affect the District's IT systems and data include fire, flood, and other environmental threats; power outages; computer viruses; and inadvertent or intentional user actions. Without proper precautions, a failure or interruption of computerized operations could result in considerable time, effort, and expense to correct, as well as the potential loss of data. Therefore, a sound internal control system includes a formal disaster recovery plan to prevent the possible loss of computer equipment and data and to establish procedures for recovery in the event of such a loss. The plan should detail precautions to minimize the effects of any disaster, and steps to enable District personnel to either maintain or quickly resume the District's critical functions. Typically, disaster recovery planning involves an analysis of business processing and may include a significant focus on disaster prevention.

District officials have not established a formal disaster recovery plan. Consequently, District personnel have no guidelines or plan to follow to help minimize or prevent the loss of equipment and data, and no specific guidance on how to implement data recovery procedures. The lack of a formal disaster recovery plan places the District at an increased risk of costly disruption to its business operations and/or the potential loss of its essential financial data.

Recommendations

1. District officials should review and revise user access rights to the financial software to ensure that users have access only to those functions needed for their job responsibilities.

³The District Treasurer, three account clerks, two clerk-typists, and one stenographer

2. District officials should develop policies and procedures requiring that all user account additions, deletions, and changes are properly authorized and documented. These procedures should include steps for the periodic review of user access rights and their modification or deactivation, as appropriate, when employees' job responsibilities change or employees leave District service.
3. District officials should develop a formal disaster recovery plan. This plan should include precautions to help prevent the possible loss of computer equipment and data, and a process that District personnel should follow to maintain or resume critical operations as efficiently as possible in the event of a disaster.

Disclosure of Interest

General Municipal Law (GML) limits the ability of municipal officers and employees to enter into contracts in which their personal financial interests and their public powers and duties conflict. Officers or employees have an interest in a municipal contract when receiving a direct or indirect monetary or material benefit as a result of a contract; when they are members or employees of the contracting firm, partnership, or association; or when they are officers, directors, employees, or stockholders of a contracting corporation.⁴ Unless a statutory exception applies, such an interest in a municipal contract is prohibited when a municipal officer or employee⁵ has the power or duty to negotiate, prepare, authorize, or approve the contract; authorize or approve payment under the contract; audit bills or claims under the contract; or appoint an officer or employee who has any of these powers or duties. Even if an interest is not prohibited, a municipal officer's or employee's interests (as well as those of his or her spouse) in actual or proposed contracts generally must be publicly disclosed in writing to the individual's immediate supervisor and to the Board, and such disclosure included in the official record of Board proceedings. It is imperative that every District official be aware of the provisions of this law and abide by them, and the Board is responsible for ensuring that the District adheres to the legal prohibitions regarding conflict of interest.

GML also mandates that the governing body of every school district in the State adopt a local code of ethics to guide its officers and employees in the standards of conduct reasonably expected of them. The Board adopted its current code in January 2008, reiterating the statutory requirement that all members of the Board "publicly disclose the nature and extent of any interest they or their spouse have, will have or later acquire in any actual or proposed contract, purchase agreement, lease agreement or other agreement involving the school district to the governing body and his/her immediate supervisor even if it is not a prohibited interest under applicable law. Such disclosure must be in writing and made part of the official record of the school district."

The President of the Board (President) is an employee of a copy machine vendor that has a contract with the District. During our

⁴ Municipal officers and employees are also deemed to have an interest in the contracts of their spouse, minor children, and dependents (except employment contracts).

⁵ Whether as an individual or as a member of a governing board

audit period the District paid the vendor approximately \$195,000 for the use of its copiers and for maintenance and supplies. On July 17, 2007, the Board approved a contract⁶ with the vendor for the 2007-08 fiscal year ending June 30, 2008. The President was employed by the vendor starting in April 2008. District officials told us that they did not consider the President to have a prohibited interest in the contract because his employment compensation from the vendor is not directly affected as a result of the contract and his employment duties do not directly involve obtaining, preparing, or fulfilling any part of the contract.⁷ However, since the President was employed by the vendor during the contract period, disclosure of his interest (even though that interest was not prohibited) was still required under GML and the District's code of ethics.

The Board's failure to know and enforce the disclosure requirements as stipulated by the law and District policy increases the risk that prohibited transactions may occur which could result in an improper enrichment of the individual at taxpayers' expense. Further, a District official's interest in a District contract, even if not prohibited or otherwise improper, can create a public perception of impropriety. Full disclosure of interests in contracts is not only legally mandated and required by the District's code of ethics, but also furthers the transparency of District operations and enhances the public trust.

On January 13, 2009, we discussed this issue with the President. During the subsequent Board meeting on January 27, 2009, each of the Board members publicly disclosed their employers.

Recommendation

4. Board members and any other District officials or employees should continue to disclose any interests they have in District contracts, as required by law and District policy.

⁶ Entailing various monthly payments for the use of copiers, maintenance, and supplies

⁷ One of the exceptions in GML is for instances when an interest in a contract is prohibited solely because the municipal officer or employee is an officer or employee of a firm, association or corporation, and if (1) his or her remuneration from that private employment will not be directly affected as a result of the municipal contract and (2) the duties of the private employment with the firm, association or corporation do not directly involve the procurement, preparation or performance of any part of the municipal contract.

Fuel Inventory

District officials are responsible for establishing a system of internal controls over fuel storage and pumping facilities to help ensure that fuel is used appropriately and protected from waste, loss, or theft. Effective controls include Board-adopted policies and written procedures that require limiting access to fuel supplies; maintaining perpetual inventory records identifying quantities purchased, delivered, and dispensed; and conducting periodic inventories to reconcile inventory records to physical inventory levels. To help these controls accomplish their purpose, each vehicle must have a unique identification (ID) or plate number to accurately track fuel use. It is also important that officials review fuel usage reports to ensure that only District vehicles and equipment are being fueled, and that all fuel dispensed is accounted for.

The Board and District officials did not develop written policies and procedures for controlling and monitoring vehicle fuel inventories or for tracking vehicle-specific fuel use. District personnel did not maintain perpetual inventory records or periodically reconcile inventory records to physical inventory. In addition, District officials did not assign all vehicles separate ID numbers and employees were not required to enter odometer readings in the fuel log to track mileage. Although we found no significant discrepancy between our calculation of current fuel supplies and the actual inventory on hand, the noted weaknesses in the District's controls over fuel usage and recordkeeping increase the risk of errors or irregularities occurring without being detected or corrected.

During the audit period the District spent approximately \$459,000 on gasoline and diesel fuel for its 77 buses, two security vehicles, and various maintenance vehicles⁸ and machinery. The District has one gasoline and one diesel fuel pump located in the parking lot next to the District's Transportation office. The fuel pumps have meters that keep track of the amount of fuel in the storage tanks, and Transportation staff keep a printout of the meter readings to determine when fuel has to be ordered. The parking area and the Transportation office are open during the day and locked in the evening and on weekends. The keys to the gates also operate the locks on the gas pumps. According to District officials, these keys are attached to each of the keys that operate the buses and security vehicles. When the buses or cars are in use, the drivers have access to the fuel pumps; when not in use,

⁸ Including vans, jeeps, and a truck, among other vehicles

the keys are kept in the Transportation office. In the evening and on weekends, generally, three or four bus drivers have the key for evening and weekend bus trips. According to the Assistant Superintendent for Business, the head groundsman also keeps a key to the gates and pumps in order to fill up the maintenance vehicles and machinery. The District maintains one fuel log for both pumps, which the drivers and grounds staff fill in with the amount of gallons pumped, the bus number, and their signature. However, the log does not include ID numbers for the security or maintenance vehicles, the date and time the fuel was pumped, or the vehicle's odometer reading. In addition, the fuel log is not reconciled to the fuel delivery records, pump meter readings (which show remaining fuel volume), or vehicle records. Without such periodic reconciliations, District officials may not be able to detect or investigate any discrepancies between the recorded fuel usage and actual depletion of supplies.

Based on these control weaknesses, we performed a reconciliation of the gasoline and diesel fuel used in February and March 2008. We began with the starting fuel inventory as shown on the fuel pump meters and totaled each day's usage, as stated in the fuel log, to determine the total gallons pumped during the two months. We also determined, by examining invoices, the amount of gasoline and diesel fuel delivered into the system, calculated an ending inventory amount, and compared it to the inventory amount shown on the fuel pump meter printouts at March 31, 2008.

Our reconciliation did not find any material differences between the ending inventory amounts and the readings of actual gasoline and diesel fuel on hand. However, the fuel log lacked information that would help District officials monitor vehicle-specific fuel usage. Without odometer readings, consistent use of vehicle ID numbers, and/or dates and times that fuel is pumped, District officials have no assurance that the fuel recorded in the usage log was used only in authorized District vehicles for legitimate District activities.

Due to the weaknesses in the District's internal controls over fuel usage, access, and inventory, its vehicle fuel supplies at an increased risk of waste or misuse, and District officials do not have assurance that the District's fuel inventories are adequately safeguarded.

Recommendation

5. District officials should develop and enforce procedures for limiting access to the fuel pumps; maintaining accurate records of fuel purchased, delivered, and dispensed, including the date and time, vehicle identification, and vehicle odometer reading when fuel is pumped; performing periodic physical inventories of fuel stores; and reconciling fuel usage reports to vehicle and inventory records.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

DEER PARK UNION FREE SCHOOL DISTRICT

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Elizabeth Marino
Superintendent of Schools

Frank Caliguiri
Asst. Superintendent

Eva Demyen
Deputy Superintendent

Marguerite Jimenez
Asst. Superintendent

May 27, 2009

CERTIFIED MAIL

Mr. Jeffrey P. Leonard, Chief Examiner
Office of the State Comptroller
NYS Office Building, Room 3A10
Veterans Memorial Highway
Hauppauge, NY 11788-5533

Dear Mr. Leonard:

As the final phase of our audit is concluded, I would like to take this opportunity to thank your office for the respectful, non-intrusive and comprehensive manner in which the review of the district's financial operations was conducted. The professionalism of [REDACTED] and [REDACTED] were noted by everyone with whom they came into contact. Their open and forthright communication with my office helped us identify areas for improvement of our internal control procedures with regard to fuel inventory and software access within the Business Department.

I am pleased that the audit found no evidence of inappropriate transactions and no significant discrepancy between calculations of fuel supplies and inventory. In most cases, the suggestions for tightening internal controls made by [REDACTED] and his team were fully and satisfactorily implemented before the conclusion of the audit. The following are specific responses and corrective action plans to the audit's recommendations and have been accepted by the Board of Education at their May 26, 2009 meeting:

INFORMATION TECHNOLOGY

Recommendations

1. District officials should review and revise user access rights to the financial software to ensure that users have access only to those functions needed for their job responsibilities.
2. District officials should develop policies and procedures requiring all user account additions, deletions and changes are properly authorized and documented.
3. District officials should develop a disaster recovery plan.

Corrective Action

1. User rights to financial software have been reviewed, adjusted where indicated, and access has been restricted to only those functions necessary for individual job responsibilities, including access for the district treasurer, secretary to the Superintendent, secretary to the Assistant Superintendent, accountant, accounts payable clerk and payroll clerk. The treasurer no longer has administrator rights. Administrator rights are now the responsibility of a network and systems technician.
2. Procedures have been developed so that there is proper authorization of changes to user accounts and periodic review of user access rights to financial software. A specific form was developed for requesting changes to user accounts that requires authorization from the Assistant Superintendent for

Business and Operations. The changes are then made by the system administrator for [REDACTED] and a copy of the form is kept in the personnel file as well as with the system administrator. The system administrator and the Assistant Superintendent for Business and Operations periodically review the user accounts to ensure only active employees have access to the system as well as those areas specific to their job descriptions.

3. The district is in the process of developing a comprehensive disaster recovery plan. It is anticipated the disaster recovery plan will be completed and accepted by the Board of Education by September 2009.

DISCLOSURE OF INTEREST

Recommendation

Board members and other district officials or employees should continue to disclose any interests they have in District contracts, as required by law and District policy.

Corrective Action

As noted in the report, disclosure of potential conflict of interest was reported at the January 27, 2009 Board of Education meeting and will continue to be reported at the annual District reorganization meeting each July.

FUEL INVENTORY

Recommendation

District officials should develop and enforce procedures for limiting access to the fuel pumps, maintain accurate records of fuel purchase and usage and perform periodic inventories.

Corrective Action

Keys to fuel pumps have been restricted to three administrators. Detailed logs that include the date, vehicle number or description, license plate number, odometer reading, amount of fuel pumped, and signature of the person pumping fuel are being maintained and reviewed by the transportation supervisor and the Assistant Superintendent for Business and Operations to accurately record and monitor fuel inventory relative to district vehicle usage. The fuel logs are reconciled daily to the fuel pump system. The district has established a procedure that only allows for fuel to be pumped Monday through Friday with the pumps locked at 6 P.M. on Friday. Security cameras have been installed, and the district is in the process of installing a key fob system to electronically track usage with each vehicle.

On behalf of the Board of Education of the Deer Park Union Free School District, its administration and residents, I would like to express appreciation to the Office of the State Comptroller for its thorough and expert review of the district's financial procedures and the opportunity this process has provided for the continual improvement and refinement of business operations.

Sincerely,



Elizabeth Marino
Superintendent of Schools

cc: Board of Education

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 internal controls over fuel inventories, interests in contracts, and information technology for further audit testing.

Our examination included the following steps:

- We verified that access to fuel inventory is restricted to authorized personnel. We looked for physical safeguards and authorized signatures.
- We performed a reconciliation of the gasoline and diesel fuel used in February and March 2008 to determine if any discrepancies existed.
- We traced fuel inventory purchases and usage to detail records.
- We determined what internal controls and procedures were in place to identify and prevent potential conflicts of interest related to contracts.
- We reviewed representations from District officials and Board members indicating their outside employment and business interests.
- We interviewed District officials and examined Board minutes and documentation.
- We interviewed District personnel and evaluated internal controls and safeguards over the District's information technology system.

- We evaluated access controls over the financial software used by the District to maintain financial records and process financial accounting transactions.

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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