



Albany City School District Separation Payments and Information Technology

Report of Examination

Period Covered:

July 1, 2011 — August 31, 2012

2012M-251



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

February 2013

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 Albany City School District, entitled Separation Payments and Information Technology. 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*

Introduction

Background

The Albany City School District (District) is located in the City of Albany, Albany 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 17 schools in operation within the District, with approximately 8,500 students and 1,600 employees. Budgeted general fund expenditures for the 2012-13 fiscal year are approximately \$208 million, and are funded primarily with real property taxes and State aid.

The Assistant Superintendent for Business Affairs supervises all functions within the Business Office, including supervising the Treasurer, who is designated as the custodian of District funds, and the payroll clerks, who are responsible for processing all payrolls.

Objective

The objective of our audit was to examine the District's calculation of separation payments and information technology. Our audit addressed the following related questions:

- Were separation payments made to employees calculated accurately?
- Did the Board adequately design and implement policies over the security of information technology (IT) that ensure the protection of the District's IT assets and data?

Scope and Methodology

Our overall goal was to assess the adequacy of the District's financial operations. 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 condition, cash receipts and disbursements, purchasing, payroll and personal services, and IT. Based on that evaluation, we determined that controls appeared to be adequate and limited risk existed in most of the financial areas we reviewed. We did determine that there are inherent risks in the processing of separation payments area and, therefore, we examined separation payments made during the period July 1, 2011 to August 31, 2012. Furthermore, our audit disclosed areas in need of improvement concerning some

IT controls. Because of the sensitivity of some of this information, the vulnerabilities are not discussed in this report, but have been communicated confidentially to District officials so they could take corrective action.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit is included in Appendix B of this report.

**Comments of
District Officials and
Corrective Action**

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

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of the General Municipal Law, Section 2116-a (3)(c) of the Education Law and Section 170.12 of the Regulations of the Commissioner of Education, a written corrective action plan (CAP) that addresses the findings and recommendations in this report must be prepared and provided to our office within 90 days, with a copy forwarded to the Commissioner of Education. To the extent practicable, implementation of the CAP must begin by the end of the next fiscal year. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. The Board should make the CAP available for public review in the District Clerk's office.

Separation Payments

District employees should be paid for only those amounts to which they are entitled. Leave time is an employee benefit generally granted in negotiated collective bargaining agreements and individual employee contracts. Employees earn a fixed number of days each year for vacation, illness, and personal use. School districts often provide cash payments (separation payments) to employees for all or a portion of their earned but unused leave time when they leave district service. The Board must ensure that separation payments are accurate and authorized by employment contracts or Board resolutions.

During the audit period, 32 employees left District service and received separation payments totaling \$722,738. Generally, District officials calculated the correct amount for separation payments provided to the employees leaving District service. Except for two minor exceptions, which we discussed with District officials, we found that the District has designed appropriate internal controls over employee separation payments and those controls are operating effectively.

Recommendation

1. District officials should accurately calculate separation payments in accordance with the provisions in employee contracts or Board resolutions, and provide for the payment for all applicable unused leave time.

Information Technology

The District relies on a computerized system for many areas of its day-to-day operations, including maintaining the District's financial data, processing payrolls, generating reports for making financial decisions, and for reporting to State and federal agencies. If the system on which this data is stored fails or the data is lost or altered either intentionally or unintentionally, the results could range from inconvenient to catastrophic. Even small disruptions in electronic data systems can require extensive effort to evaluate and repair.

Effective internal controls over a district's computer system and data should include a formal disaster recovery plan describing how an organization will deal with potential events – such as fire, flood, power outages, computer viruses, or accidental or deliberate user actions – that could cause the loss of computer equipment, systems, or data. Such a plan should include policies and procedures to minimize loss, recover any lost or damaged data, and maintain or quickly resume critical operations. Typically, disaster recovery planning requires an analysis of business processes and continuity needs, and also may include disaster prevention. A thorough disaster recovery plan clearly identifies the responsibilities of key individuals and the procedures they should follow to prevent or minimize business interruptions and to return to normal operations with a minimal loss of productivity and data.

In 2010, District officials developed a disaster recovery plan; however, the Board has not formally adopted the plan. Also, the plan does not sufficiently address all necessary components and does not contain the level of detail necessary to ensure that the computer system could be restored in a timely manner.

We also found that the District has not tested the plan to ensure that it can be implemented in emergency situations and that management and staff understand how it is to be executed. Finally, we found that all employees were not made aware of the plan. To improve the plan's effectiveness, it is important that all staff be made aware of the plan and their role in the recovery process, should a disaster occur.

Recommendation

2. District officials should review the disaster recovery plan and modify it to include all of the components of an effective plan. The plan should be distributed to all responsible parties and periodically tested and updated.

APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

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

February 15, 2013

[REDACTED]
Principal Examiner
NYS Office of the State Comptroller
Division of Local Government
and School Accountability
One Broad Street Plaza
Glens Falls, New York 12801

Dear [REDACTED]

Please accept this letter in response to the Report of Examination for the period of July 1, 2011 to August 31, 2012 reviewed with district staff at our exit conference January 28, 2013.

The report addresses two areas of concern; separation payments, and information technology. The district has reviewed both of these areas and will address processes to correct these items in our Corrective Action Plan.

Separation Payments

The District provides separation payments to retirees under the guidelines of their employment agreements. During the audit period, 32 employees left the District and received separation payments totaling \$722,738. In two instances a calculation error occurred where the total number of days available was misstated which resulted in total underpayments of \$5,011.86.

The District recognizes the error, and has issued corrective payments to the individuals. The District has also implemented a process to assure that all separation payments are reviewed prior to issuing the payout.

Information Technology

The District developed a disaster recovery plan in 2010 that has not formally been adopted by the Board. The findings of the audit team are that the plan does not sufficiently address all necessary components or necessary details to ensure the computer system could be restored in a timely manner. Additionally, the District has not tested the plan to ensure that it can be implemented in an emergency situation, and that management and staff understand their roles in the execution of the recovery plan if a disaster should occur.

The District recognizes the need to update the disaster recovery plan to ensure it covers all recommended areas and is formally adopted by the Board. Furthermore, the District

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understands the need to clarify the roles of information technology personnel during a disaster recovery and will update and incorporate these aspects of the plan prior to Board adoption.

The District currently replicates all data on a separate server on a daily basis which is located off-site from the operational servers. The District needs to obtain a second high-level server in order to implement a full recovery system that includes all software. This is a tremendous challenge given that State-aid in the District has not increased in five years. Once the additional server is obtained, the District will have the ability to perform disaster recovery simulations with full reporting and verification.

The District would like to thank the members of your field team for the competent, courteous, and professional manner in which they conducted themselves during the examination period.

Sincerely,

William F. Hogan
Assistant Superintendent for Business Affairs

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, control environment, 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. Based on that evaluation, we determined that controls appeared to be adequate and limited risk existed in most of the financial areas we reviewed. We then decided on the reported objective and scope by selecting for audit those areas most at risk. We selected separation payments and information technology for further audit testing.

To accomplish the objective of this audit and obtain valid audit evidence, our procedures included the following:

- We interviewed District staff and reviewed the procedures used for approving and processing lump sum payments to employees upon separation from the District.
- For the 32 separation payments made during our audit period, we examined the supporting records filed in the Business Office, including payroll transaction worksheets, leave accrual records and labor agreements.
- We interviewed District officials to gain an understanding of the policies and procedures for passwords and disposal of hard drives.
- We reviewed the District's disaster recovery plan and compared the contents of the plan to industry standards.

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 C

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