



Urban Choice Charter School

Information Technology

Report of Examination

Period Covered:

July 1, 2010 — December 18, 2012

2013M-53



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

May 2013

Dear School Officials:

A top priority of the Office of the State Comptroller is to help school officials manage government resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support school operations. The Comptroller oversees the fiscal affairs of public schools statewide, as well as 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 operations and School Board governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard school assets.

Following is a report of our audit of Urban Choice Charter School, entitled 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 Section 2854 of the Education Law.

This audit's results and recommendations are resources for local government 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

A charter school is a public school financed by local, State and Federal resources that is not under the control of the local school board. Charter schools have fewer legal operational requirements than traditional public schools. Most of the regulations for a charter school are contained in the entity's by-laws, charter agreement, and the fiscal/management plans, which are part of the charter school application.¹ The charter agreement must be completed immediately after the application is approved. Charter schools are required to set both financial and academic goals. A school's renewal of its charter is dependent on it meeting these goals. The Urban Choice Charter School's (School's) current charter was renewed in January 2010.

The School is located in the City of Rochester and is governed by the Board of Trustees (Board), which comprises 10 members. The Board is responsible for the general management and control of the School's financial and educational affairs. This responsibility includes adopting a budget in a timely manner and monitoring the School's financial operations. The Chief Executive Officer (CEO) of the School is responsible, along with other administrative staff, for the day-to-day management of the School under the direction of the Board.

The Director of Business and Finance (Director) is the chief accounting officer according to the School's charter. The Director is responsible for maintaining custody of, depositing, and disbursing School funds, maintaining the financial records, and preparing the monthly and annual financial reports for Board review. The Director also is responsible for making budget amendments throughout the year, based on budget-to-actual reports, and submitting the amendments to the Board for approval. However, due to turnover, the contracted Financial Specialist actually performed this function since October 14, 2011.

The School's 2012-13 fiscal year budgeted expenditures totaled approximately \$5.6 million, which were funded primarily from student tuition, State and Federal aid, and donations. The School had approximately 400 enrolled students and 90 employees as of June 30, 2012.

¹ Urban Choice Charter School's charter is authorized by the New York State Board of Regents.

Objective

The objective of our audit was to examine the School's financial operations. Our audit addressed the area of information technology and, specifically, the following related question:

- Are controls over information technology (IT) appropriately designed to safeguard the School's computerized data?

Scope and Methodology

We examined the School's financial operations for the period July 1, 2010, to December 18, 2012. To accomplish this, we evaluated selected areas by performing the following survey procedures:

- General Governance – We reviewed the School's charter, by-laws, and Board policies and found that the Board has not formally adopted financial policies regarding purchases under \$10,000, cash receipts and disbursements, or payroll processing, which we discussed with School officials. The by-laws and/or charter adequately address conflicts of interest, code of ethics, investments, and appointment of Board members.
- Financial Oversight and Condition – We found that, generally, the internal controls over Board oversight of School financial operations were sufficient. The Financial Specialist prepares and presents various financial reports to the Board Treasurer/Chairman of the Finance Committee for review and presentation to the Board.
- Purchasing – We reviewed five purchases totaling \$99,084 that the School made during our audit period and found minor discrepancies, which we discussed with School officials.
- Cash Disbursements – We reviewed the School's internal controls over cash disbursements. Specifically, we reviewed the cash disbursements process and determined that bank reconciliations were completed regularly and in a timely manner. We reviewed controls over check stocks and determined they generally were adequate. We interviewed employees involved with the cash disbursements process. We also obtained and reviewed the School's disbursement records for the 2011-12 fiscal year. We found some minor discrepancies, which we discussed with School officials.
- Payroll and Personal Services – We reviewed the internal controls over the payroll process and reviewed payments for the audit period. We reviewed payments made to two employees upon their separation from School employment. We found that the payments were supported with adequate

documentation and appeared to be for proper amounts and, therefore, we determined that the internal controls were sufficient.

- Electronic Equipment Inventory – We reviewed the School’s electronic equipment inventories and did not identify any discrepancies.

After evaluating these areas, we determined that, except for the minor discrepancies which we discussed with School officials, it appears that School officials have established adequate controls and, therefore, limited risk exists. Accordingly, we determined that further testing in these areas was not necessary.

We also reviewed internal controls over IT and found that risk existed in this area. Therefore, we examined the School’s internal controls over IT for the period July 1, 2010, through December 18, 2012.

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.

**Comments of School
Officials and Corrective
Action**

The results of our audit and recommendations have been discussed with School officials and their comments, which appear in Appendix A, have been considered in preparing this report. School officials generally agreed with our recommendations and indicated they have started to implement corrective action. Appendix B includes one comment on an issue raised in the School’s response letter.

The Board has the responsibility to initiate corrective action. We encourage the Board to prepare a plan of action that addresses the recommendations in this report, and to forward the plan to our office within 90 days. 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. We encourage the Board to make this plan available for public review in the School’s administrative office.

Information Technology

Computer systems and data are a valuable resource that School officials rely on to make financial decisions, process transactions, keep records, and report to State agencies. If the computers on which this data is stored fail, or the data is lost or altered, either intentionally or unintentionally, the results could range from an inconvenient to catastrophic situation. Even small disruptions can require extensive time and effort to evaluate and repair. For this reason, it is important that School officials control and monitor computer system access and usage and establish a formal disaster recovery plan. The Board is responsible for adopting policies and procedures and developing controls to safeguard computerized data and assets.

The Board has not established adequate internal controls over the School's IT system to ensure the School's computerized data and assets are safeguarded from internal and external threats. The Board has not established policies and procedures related to remote access, data backup, computer security, and data breaches. Further, the Board has not adopted a disaster recovery plan to address potential disasters. While IT policies do not guarantee the safety of the School's IT system or the electronic information it has been entrusted with, the lack of policies significantly increases the risk that data, hardware, and software systems may be lost or damaged by inappropriate access and use. As a result, the School's IT resources, systems, and electronic data are subject to increased risk of unauthorized access, manipulation, theft, and loss or destruction.

Access Rights

A proper segregation of duties is a key internal control feature. With a proper segregation of duties, no one person controls all the significant aspects of a transaction or event, and the work performed by one person is checked by the functions performed by another. To ensure proper segregation of duties and internal controls, the District's financial software applications should allow users to access only the computer functions that are necessary to fulfill their job responsibilities. Having access controls in place prevents users from being involved in multiple aspects of financial transactions. As staff duties change over time, it is important for School officials to re-evaluate employees' access rights to determine if these rights should be modified. Generally, a system administrator is designated as the person who has oversight and control of the system and has the ability to add new users and change users' passwords and rights. With this ability, administrators are able to control and use all aspects of the software. A good system of controls requires that this position be separate from the Business Office function.

School officials do not restrict user access to the financial management system based on job function. All users have full access to all financial data and operations, including the Financial Specialist, who also has remote access. In addition, until she resigned, the Director had administrative rights that allowed her to add or delete users. The accounts payable clerk was the interim administrator for about a month until the new Director was hired. The Board did not implement any compensating controls, such as reviewing journal entries, bank reconciliations, or electronic fund transfers. Because individuals have access rights that go beyond what they need to complete their job duties, the risk is greatly increased that errors or irregularities could occur without detection or correction.

As a result of these weaknesses, we reviewed the bank reconciliations and bank transfers from January 1, 2012, through August 30, 2012, and journal entries from September 1, 2012, to November 30, 2012. Although we did not find any material exceptions, the School's failure to establish controls over user rights does not provide reasonable assurance that the School's computer resources are protected from unauthorized modification and that the financial information is verified as accurate.

Computer Security

It is essential for School officials to develop a formal, written security plan to document the process for evaluating and assessing security risks, to identify and prioritize potentially dangerous issues, and to document the process for discussing and determining solutions. The plan should establish a framework for preventing possible exposure to risk and include policies and procedures on specific security areas such as the use of unsecure or unprotected storage and personal computing devices, controls over sensitive data, and audit logs (automated trails of user activity).

School officials have not developed a written security plan to document any processes or procedures that may already be in place or to institute specific controls to ensure that sensitive data are properly secured and stored. Because of the failure to address potential security weaknesses and develop a written, enforceable security plan, areas that could be at risk may have been overlooked, and informal policies and procedures to control risk may be inconsistently applied or ineffective. For example, the School does not monitor network traffic, remote access, or firewall activities. As a result, there is an increased risk that the School's IT resources could be compromised, or that unauthorized transactions could be initiated and not be detected.

Disaster Recovery Plan

A disaster recovery plan (DRP) should be in place to prevent loss of the computer equipment and data and to provide staff with procedures for data recovery in the event of a loss. A DRP is intended to identify

and describe how School officials plan to deal with potential disasters. Such disasters may include any sudden, catastrophic event (e.g., fire, computer virus, or deliberate or inadvertent employee action) that compromises the availability or integrity of the IT system and data. Contingency planning is used to avert or minimize the damage that disasters would cause to operations. Such planning consists of precautions to be taken to minimize the effects of a disaster so that officials and responsible staff will be able to maintain or quickly resume day-to-day operations. Typically, a DRP involves an analysis of business processes and continuity needs; it also may include a significant focus on disaster prevention. The plan should address the roles of key individuals and be distributed to all responsible parties, periodically tested, and updated as necessary.

The Board has not adopted a DRP. Consequently, in the event of a disaster, School personnel have no guidelines or plan to follow to help minimize or prevent the loss of equipment and data, or guidance on how to implement data recovery procedures. The lack of a DRP could lead to loss of important financial data along with a serious interruption to School operations, such as not being able to process checks to pay vendors or employees.

Recommendations

1. The Board and School officials should adopt comprehensive policies and procedures related to remote access, data backup, computer security, and data breaches.
2. School officials should evaluate employee job descriptions and assign computer system access rights to match the respective job functions.
3. The Board should designate someone independent of Business Office operations to assign user access rights and review audit logs generated by the computerized fiscal management system and network, remote access, and firewall activity.
4. The Board and School officials should adopt a comprehensive disaster recovery plan.

APPENDIX A

RESPONSE FROM SCHOOL OFFICIALS

The School officials' response to this audit can be found on the following page.



Urban Choice Charter School

Redefining Urban Education

545 Humboldt Street

Rochester, NY 14610

Phone: 585-288-5702

Fax: 585-654-9882

May 7, 2013

Office of the State Comptroller
Division of Local Government & School Accountability
110 State Street, 12th Floor
Albany, NY 12236

Re: Draft audit report for Urban Choice Charter School

To Whom It May Concern:

Thank you for meeting with school leaders recently to discuss the 2013 draft audit report for Urban Choice Charter School. After a thorough review, the school accepts all of the recommendations and findings contained in the draft report with the following three minor exceptions:

1. On page 1, paragraph 3, the Financial Specialist performed the stated function beginning in October 2011, not September 2011.
2. On page 2, bullet point 2, it should be noted that the Financial Specialist no longer prepares and presented financial reports since the school's permanent staffing has been stabilized.
3. On page 4, paragraph 4, it should be noted that the school's financial management system has been changed to restrict user access based on job function since the audit.

See
Note 1
Page 11

Urban Choice Charter School's leadership team plans to implement all of the OCS's recommendations by August 31, 2013 or sooner.

Please feel free to contact me with any questions or concerns.

Sincerely,

Edward Cavalier

Chief Executive Officer

APPENDIX B

OSC COMMENT ON THE SCHOOL'S RESPONSE

Note 1

We amended the final report to reflect the correct date.

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 School assets. In order to accomplish this, we performed an initial assessment of School operations 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, control environment, accounting system, cash management, cash receipts and disbursements, purchasing, claims processing, payroll, information technology, and Board oversight.

During the initial assessment, we interviewed School officials and employees, performed limited tests of transactions, and reviewed pertinent documents such as adopted policies and procedures, Board minutes, and financial records and reports. After reviewing the information gathered during our initial assessment, we determined where weaknesses existed, and evaluated those weaknesses for inherent control risks. We then decided on the reported objectives and scope by selecting for audit those areas most at risk. We selected the School's internal controls over information technology (IT) for further audit testing.

To accomplish our audit objective, we interviewed School officials and employees to obtain an understanding of internal controls. We reviewed various records and reports including general ledgers, budgets, balance sheets, bank statements, and other supporting documentation to determine compensating controls that are in place to reduce risk where internal controls are weak or do not exist over IT. We also performed the following procedures:

- We interviewed key employees and School officials to determine the processes for monitoring access to the School's networks including monitoring firewall events, remote access, and potential malicious attacks on the network. Because no monitoring existed and no reports were generated, there was no further review to be performed.
- We interviewed key employees and School officials to determine the existence of a formal disaster recovery plan. Because no plan existed, there was nothing further for us to review.
- We interviewed key employees regarding the setting of access rights to the School's financial software. Upon determining that users had full access rights without monitoring of user access by management, we did not perform further review of these rights.
- We interviewed key employees, reviewed the School's charter and by-laws, interviewed School management, and reviewed applicable documentation to determine the existence of compensating controls over select financial processes that might mitigate the lack of internal controls within the financial software.
- We judgmentally selected and reviewed bank statements and accompanying reconciliations for the audit period. We were looking for evidence of review of bank reconciliations by management. Additionally, we reviewed select bank reconciliations for completeness and accuracy.

- We interviewed key personnel and Board members to determine if reviews were conducted of recording electronically deposited revenues and electronic transfers.
- We obtained and reviewed all journal entries for September through November 2012.

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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

APPENDIX D

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