Franklin Square Union Free School District

Internal Controls Over Selected Financial Operations

Report of Examination
Period Covered:
July 1, 2006 — January 31, 2008
2009M-62

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Division of Local Government
and School Accountability

July 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 is mandated to oversee 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 Franklin Square Union Free School District, entitled Internal Controls Over Selected Financial Operations. 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 Franklin Square Union Free School District (District) is governed by the Board of Education (Board) which comprises five 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 Board designated the Assistant Superintendent for Finance and Management as the purchasing agent. The purchasing agent is responsible for administering all purchase activities and ensuring that all purchases are competitive and without prejudice or favoritism in compliance with General Municipal Law (Law) and District policy. The Board hired a Director of Technology to administer the District’s network and financial software which is used to process and maintain financial transactions.

**Scope and Objective**

The objective of our audit was to evaluate the District’s internal controls over selected financial activities for the period July 1, 2006, to January 31, 2008. Our audit addressed the following related questions:

- Are internal controls over the District’s procurement procedures appropriately designed and operating effectively?
- Are internal controls over the check-signing process appropriately designed and operating effectively to adequately safeguard the District assets?
- Did the Board adopt policies and procedures to properly classify workers?
- Are internal controls appropriately designed and operating effectively to ensure that computer data is adequately safeguarded?

**Audit Results**

We found instances where District officials had either not established internal controls or controls that had been established were not implemented and operating effectively. As a result, the District is vulnerable to the possibility of errors and/or irregularities occurring and not being detected in a timely manner. For example, the District’s procurement procedures were not appropriately designed or operating effectively. We reviewed the payments made to six of 50 professional service providers and found that District officials did not solicit competitive proposals prior to selecting all six providers. These six vendors were paid $267,379. We also tested payments totaling $429,696 made to 20 vendors...
during our audit period and found that the District did not use competitive bidding as required for four purchases and three public work contracts, totaling $177,074. Finally, we also tested 20 payments totaling $47,586 that required written or verbal quotes, and found no evidence that District personnel had attempted to obtain quotes for 13 purchases totaling $23,607. As a result, the District may have paid more than what is necessary for goods and services, with no assurance that this was the most prudent and economical use of taxpayer’s monies.

District officials also did not maintain a list of employees who are authorized to use District credit cards and the District did not have adequate procedures to ensure that credit card claims were sufficiently supported prior to payment. We selected 10 claims packages for credit card purchases made during our audit period and found that nine of the claims packages, totaling $18,445, were not adequately supported. Although the purchases we reviewed appeared to be proper District expenses, a proper audit of the claims cannot be made without essential documentation, including signed receipts supporting the charges listed on each credit card invoice.

Internal controls over the check-signing process were not adequately designed and were not operating effectively. Although the Board designated the Treasurer to sign all District checks and the Board President to sign in his absence, we found that for the 20 checks we tested, the checks were actually processed without the Treasurer’s signature and involvement. These checks were signed by the Assistant Superintendent for Curriculum and Instruction. However, this official is not authorized by the Board as the Treasurer, Deputy Treasurer, or the signatory in the absence of both. Therefore, she should not be signing the District’s checks. While our review did not disclose any inconsistencies among the cancelled checks, claim vouchers, and warrants reviewed, unless the Board provides adequate oversight over the check-signing process, the District does not have adequate assurance that District payments are made for legitimate District purposes and in the correct amount.

We also found that the District improperly classified an independent contractor, an attorney, as an employee and enrolled this individual in the New York State and Local Employees’ Retirement System. As a result of our fieldwork, the Office of the State Comptroller has revoked this individual’s membership in the retirement system.

Finally, the Board did not establish and implement effective controls to protect the District’s computer systems and data from illegal or damaging actions by individuals, either knowingly or unknowingly. The District has no comprehensive computer policies and procedures. In addition, there is inadequate control over access to the IT systems components, such as servers. Lastly, the District has not devised a plan to provide guidance on the prevention of the loss of computer information as well as the recovery of data in the event of a disaster. Under the existing conditions, it would be difficult for District officials to prevent unauthorized and/or malicious access to these assets or to identify the party responsible if such malicious access did occur. We also found significant weaknesses in the District’s computer access controls. Given the sensitivity of these issues, we have communicated our concerns to District officials in a separate, confidential letter.

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 generally agreed with our recommendations and indicated that they planned to take corrective action. Appendix B includes our comments on the issues raised in the District’s response letter.
Background

The Franklin Square Union Free School District (District) is located in the Town of Hempstead, Nassau County. The District is governed by the Board of Education (Board) which comprises five 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 three schools in operation within the District, with approximately 1,940 students and 320 employees. The District’s expenditures were $27.1 million and $29.3 million for the 2006-07 and 2007-08 fiscal years, respectively, which were funded primarily with State and Federal aid, real property taxes, and operating grants.

The Board designated the Assistant Superintendent for Finance and Management as the District’s purchasing agent. Under the general supervision of the Superintendent, the purchasing agent is responsible for administering all purchase activities and ensuring the quality and quantity of purchases made by the District. The Board hired a Director of Technology to administer the District’s network and financial software, which is used to process and maintain financial transactions.

Objective

The objective of our audit was to determine whether the District’s internal controls over selected financial activities were appropriately designed and operating effectively. Our audit addressed the following related questions:

- Are internal controls over the District’s procurement procedures appropriately designed and operating effectively?
- Are internal controls over the check-signing process appropriately designed and operating effectively to adequately safeguard District assets?
- Did the Board adopt policies and procedures to properly classify workers?
- Are internal controls appropriately designed and operating effectively to ensure that computer data is adequately safeguarded?
During this audit, we examined the District’s internal controls over procurement procedures, the check-signing process, employee classification, and computer data safeguards for the period July 1, 2006, to January 31, 2008. Our audit disclosed additional areas in need of improvement concerning information technology controls. Because of the sensitivity of this information, certain vulnerabilities relating to access controls are not discussed in this report, but have been communicated 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 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. District officials generally agreed with our recommendations and indicated that 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, 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.
Procurement

Internal controls are essential to help safeguard the District’s assets, to ensure the prudent and economical use of District monies when procuring goods and services, and to guard against favoritism, improvidence, extravagance, fraud, and corruption. Certain controls are designed to prevent errors and irregularities from occurring. Other controls act to detect errors and irregularities timely. When it comes to procurement, adequate safeguards use each of these types of controls to mitigate the risk of errors and/or irregularities occurring and going undetected and uncorrected. These controls will help the District to receive the desired goods or service of the right quality, in the right quantity, from the right source, at the right price, in compliance with all Board and legal requirements. Effective controls over procurement also include policies and procedures to provide the District with reasonable assurance that it is using its resources effectively and complying with applicable laws and regulations. These policies and procedures should describe procurement methods, explain when to use each method, and require adequate documentation of procurement decisions.

The District’s procurement policy and procedures outline the responsibilities for purchasing activities, require the solicitation of professional services through a request for proposal (RFP) process, define when and how to use competitive bidding, and when to obtain quotes when purchasing goods or services. However, District officials did not consistently enforce these policies and procedures. As a result, District personnel did not solicit RFPs when procuring the services of six professional service providers who were paid a total of $267,379 during our audit period. In addition, District officials made payments for purchase and public work contracts totaling $177,074 without publicly advertising for competitive bids and $23,607 without obtaining documented verbal and written quotes in accordance with District policy. Finally, credit card payments were made without adequate supporting documentation. As a result, the District may have paid more than what is necessary for goods and services, with reduced assurance that taxpayers’ monies were used in the most prudent and economical manner.

Requests for Proposals

General Municipal Law (Law) requires school districts to adopt written policies and procedures controlling the procurement of goods and services when competitive bidding is not required. Competitive bidding is not legally required for the procurement of professional services that involve specialized skill, training and expertise; use of professional judgment or discretion; and/or a high degree of

Division of Local Government and School Accountability
creativity. However, an effective and comprehensive purchasing policy which requires that professional services be awarded after soliciting competition contributes to a strong control environment. In general, an RFP process can provide taxpayers with reasonable assurance that the District receives the desired service of the right quality, in the right quantity, from the right source, at the right price, in compliance with all Board and legal requirements. Moreover, an RFP process also helps the District to guard against favoritism, improvidence, extravagance, fraud and corruption.

The Board adopted a procurement policy and procedures which require the solicitation of professional services using an RFP process. However, District officials did not always acquire professional services through written proposals in observance of good business practices. Our audit identified 50 professionals who were paid approximately $1.4 million for their services during our audit period. These professionals provided various services to the District, including therapy, tutoring, accounting, auditing, and legal services. We reviewed the payments made to six of 50 professional service providers and found that District officials did not solicit competitive proposals prior to selecting the six providers. These six vendors were paid a total of $267,379 during our audit period. The providers included a legal services firm that was paid $91,092, and five occupational and other therapeutic services firms that were paid $176,287.

Based on discussions with District officials, these professional service providers were selected based upon District administrators’ expertise and knowledge. District officials contended that soliciting RFPs for special education is not practical because of Federal and State Laws, regulations and parents’ preferences, such as referrals or previous experiences with a particular professional. However, the District could strengthen control over the procurement process by soliciting RFPs from a pool of competent professionals prior to the beginning of the fiscal year for services that the District requires on a regular basis. Without the solicitation of competition, there is a likelihood of favoring one professional over another or not giving responsible professionals equal opportunity in furnishing services to the District. Furthermore, the District does not have the opportunity to seek lower cost options for these services.

**Competitive Bidding**

The purpose of obtaining bids is to encourage competition in the procurement of supplies, equipment and services which will be paid for with public funds. The appropriate use of competition provides taxpayers with the greatest assurance that goods and services are procured in the most prudent and economical manner. The Law and District’s procurement policy require that purchase and public work
contracts, when they exceed in aggregate of $10,000 and $20,000, respectively during a fiscal year, to be publicly advertised for formal bids. School districts also may use contracts awarded through the New York State Office of General Services (OGS), or participate in cooperative bidding with other governmental entities such as Board of Cooperative Educational Services (BOCES).

The District did not always adhere to the Law or its own procurement policy by making purchases in excess of the bidding thresholds without the benefit of bidding. The Assistant Superintendent for Finance and Management, as the purchasing agent, was responsible for ensuring that the District complied with competitive bidding requirements. We selected payments totaling $429,696 made to 20 vendors during our audit period and found that the District did not use competitive bidding for four purchases and three public work contracts, totaling $177,074. For example, the District purchased two utility vehicles for approximately $25,000 and did not publicly advertise for bids as required by Law.

Because District officials did not publicly advertise for competitive bids, they have no assurance that they received the best price for the goods and services that were procured, or that the contracts were awarded in a fair and equitable manner. Making purchases that are subject to the bidding thresholds without the benefit of a public bid process also violates the Law and the District’s own policy.

**Competitive Quotations**

The Law also requires the Board to adopt written policies and procedures for the procurement of goods and services that are not subject to competitive bidding requirements. These policies and procedures set forth each method of procurement, the procedures for determining which method will be used, and provide for adequate documentation of the actions taken. The District’s procurement policy requires that a fixed number and type of quotation (verbal or written, based on the cost of the goods or services) be obtained. Specifically, purchase contracts from $1,000 to $2,000 and public work contracts from $2,000 to $10,000 require verbal quotes and a purchase order. Purchase contracts from $2,000 to $10,000 and public work contracts from $10,000 to $20,000 require written quotes and a purchase order. However, the policy does not specify the number of written or verbal quotes required. In addition, the policy indicates that the written quotes obtained must detail the date, description of the items or details of the service to be provided, price quoted and name of contacts. For verbal quotes, the District must maintain a record detailing the date, item or service desired, price quoted, name of vendor and name of vendor’s representative.
We examined payments made to 20 vendors for purchases, totaling $47,586 that required written or verbal quotes and found that District personnel did not obtain verbal or written quotes for purchases made from 13 of the 20 vendors totaling $23,607. For example, the District paid $2,500 to a vendor for heating, ventilation, and air conditioning maintenance services without any documentation indicating that competitive verbal quotes were solicited, as required by the District’s policy. Without proper adherence to established policies and procedures, District officials cannot be sure that they are securing goods and services in the most economical manner and in the best interest of District taxpayers.

Credit Card Claims

An effective system of internal controls requires a comprehensive credit card policy that establishes the parameters for using a credit card and procedures for monitoring card usage. It is important that the policy identifies the individuals who are authorized to use the credit card, provides dollar limits for purchases, describes the types of purchases allowed and the documentation required to support the purchases, establishes control procedures over the custody of the credit card and the monitoring of its use, and addresses the methods to recover monies from improper use of the credit card. Furthermore, the District should have procedures in place to review and approve all claims prior to payment, including those claims involving the use of credit cards.

The District has a credit card policy which indicates that District employees may be issued a credit card to pay for actual and necessary expenses incurred in the performance of work-related duties. This policy also requires that a list of employees who are issued a credit card be maintained and that each of those employees are required to sign a District form specifying that they are liable for any non-authorized expenses. However, we found that the District did not maintain this list and employees did not sign the District form.

We tested 10 credit card claims packages totaling $24,897. We found that nine of these claim packages, totaling $18,445, were not supported with adequate documentation, such as receipts supporting the individual charges listed on the credit card statements, or included receipts that were not signed by the individual who made the purchase. The claims auditor did not identify these issues when auditing the claims packages. As a result, the District may be at risk of paying unauthorized charges for fuel and home center credit card charges.

Although the purchases we reviewed appeared to be proper District expenses, a proper audit of the claims cannot be made without essential documentation, including signed receipts supporting the
charges listed on each credit card invoice. The lack of receipts could result in approving payment for an expenditure that was not actually incurred, or does not serve a proper District purpose. The absence of a signature on the receipt prevents the identification of the person responsible for the purchase and results in a lack of accountability for expenses charged to the District.

**Recommendations**

1. District officials should solicit RFPs when selecting professional service providers.

2. District officials should ensure that purchase and public work contracts are solicited by competitive bids when necessary.

3. District officials should review and amend their procurement policy to specify the number of verbal or written quotes required.

4. District officials should monitor and enforce compliance with the District’s procurement policy and procedures relating to verbal and written quotes, and ensure that required documentation is maintained.

5. District officials should ensure that a proper audit of claims is performed prior to the payment of each credit card invoice. This includes requiring that all charges on the invoices are adequately supported by itemized receipts signed by the individual making the purchase.

6. The Board should review and update the credit card policy and ensure that it identifies all authorized users, establishes custody of the cards when not in use, requires proper documentation for all transactions, and establishes a means to recoup any unauthorized expenditures.

7. District officials should adhere to the credit card policy and ensure that a list of employees authorized to use District credit cards is maintained. Employees authorized to use credit cards should sign the District form which specifies that they are liable for any non-authorized expenses.
Check-Signing Process

Effective control over cash disbursements prevents unauthorized payments and the misuse of District funds. Education Law establishes the Treasurer as custodian of all District monies. It is essential that the Treasurer controls access to his or her signature disk and ensures that it is not used to make payments that have not been approved. The Treasurer’s signature or a facsimile should be affixed to District checks only by the Treasurer or under the Treasurer’s direct supervision. The Board may, in its discretion, require that checks be countersigned by another District officer. By resolution, the Board can also designate another person to sign checks in lieu of either the Treasurer or the other official whose signature is required, in case of their absence or inability. Education Law also requires that the Treasurer or other designated signatory must execute and file a surety bond to insure the District against loss. The Board establishes much of the framework with regard to operation of the District’s checks disbursement process. Through its action, Board members, as fiscal stewards, are responsible for setting the policy for facsimile signatures on checks, adopting resolutions authorizing person(s) as check signers and for ensuring that the policy is followed.

At the annual re-organizational meeting in July 2006 and 2007, the Board appointed the Treasurer as the official responsible for signing checks, the Board President to sign in the absence of the Treasurer, and the Assistant Superintendent for Finance and Management to sign in the absence of both. At the July 2007 re-organizational meeting, the Board also authorized the Assistant Superintendent for Curriculum and Instruction to sign all checks. In the absence of the Assistant Superintendent for Curriculum and Instruction, her signature is affixed to the checks by the Director of Pupil Services. However, these two officials are not authorized by the Board as the Treasurer, Deputy Treasurer, or the signatory in the absence of both. Therefore, neither should be signing the District’s checks.

Controls over the District’s check-signing process were not adequately designed and not operating effectively. We reviewed 20 checks, totaling $293,282, and found that they were all signed by the Assistant Superintendent for Curriculum and Instruction using her own electronic signature, which is locked in her office.¹ District officials informed us that all checks were printed and processed without the Treasurer’s signature and involvement and that they

¹ If the Assistant Superintendent for Curriculum and Instruction is absent, she would provide the Director of Pupil Services with the location and password. The signature disk is not available for general use.
were all signed by the Assistant Superintendent for Curriculum and Instruction.

This process is not in compliance with Education Law and increases the risk that inappropriate checks will be processed. Although at the July 2007 re-organizational meeting the Board authorized the Assistant Superintendent for Curriculum and Instruction to sign all checks, the Board had also authorized the Treasurer to sign all checks, the Board President to sign in her absence, and the Assistant Superintendent for Finance and Management to sign in the absence of both. It did not specify when the Assistant Superintendent for Curriculum and Instruction was authorized to sign checks. Therefore, she signed all District checks. While our review did not disclose any inconsistencies among the cancelled checks, claim vouchers, and warrants reviewed, unless the Board provides adequate oversight over the check-signing process, the District does not have adequate assurance that District payments are made for legitimate District purposes and in the correct amount.

Furthermore, we found that the District established a policy for the bonding of all employees authorized to sign checks or required to handle District funds. The acquired surety bond indicates that the Treasurer, Board President, and Assistant Superintendent are each bonded for excess limits of $175,000, while the other District employees are each bonded for $100,000.

However, the District’s surety bond is not sufficiently detailed, as follows:

- The bond indicates that coverage for the Assistant Superintendent is $175,000, without specifying which Assistant Superintendent.

- The Director of Pupil Services, who affixed the Assistant Superintendent for Curriculum and Instruction’s signature on all District checks in her absence, is not bonded by this excess limit of $175,000.

- Even if the Assistant Superintendent for Curriculum and Instruction, whose signature is on all District checks, was bonded for $175,000, the amount may not be sufficient.

- The District’s policy indicates that the amount of the surety bond will be recommended by the Superintendent. However, the $175,000 coverage may not be sufficient to cover the District’s expenditures, which were approximately $27 million for the 2006-07 fiscal year.
Due to these control weaknesses, we reviewed 20 claims totaling $293,282 that were paid during our audit period to determine if there were any inconsistencies between cancelled checks, claim vouchers and warrants, and to determine if they were proper District expenditures. We found no exceptions. However, unless the Board provides adequate oversight over the check-signing process, the District cannot be assured that payments are made for only legitimate District purposes and in the correct amount. Finally, District officials must ensure that all employees authorized to sign checks are adequately bonded to limit the District’s liability for unauthorized disbursements.

Recommendations

8. The Board should ensure that the Treasurer signs all District checks according to Education Law and District policy. If the Board chooses to authorize another individual to sign checks in the Treasurer’s absence, it may appoint a Deputy Treasurer or authorize a Board member to do so. Such individual should also be provided with a signature disk bearing his/her signature.

9. The Assistant Superintendent for Curriculum and Instruction should only sign checks in the Treasurer’s absence, if authorized by the Board.

10. The Board should review and/or update the adopted signature policy to adequately address the internal controls over the check-signing process.

11. District officials should ensure that the Treasurer and any other individual authorized to sign checks be sufficiently bonded to insure the District against loss.

12. District officials should review the amount of the surety bond for each employee authorized to sign District checks and determine whether the District is sufficiently insured.
Local governments and school districts obtain services from both public employees and independent contractors. The District is a public employer participating in the New York State and Local Employees’ Retirement System (ERS). Workers enrolled in ERS earn service credit during their employment that may entitle them to receive pension benefits. Retirement benefits are based on years of service and final average salary. All employees of participating public employers are entitled to membership in ERS, but independent contractors cannot join ERS or earn service credit. ERS provides a checklist of indicators to help officials make the classification of employee and contractor correctly. Additionally, as of April 3, 2008, enhanced regulations are available on the Office of the State Comptroller’s (OSC) website that more clearly define how local governments and school districts can determine whether professional service providers are employees or independent contractors.

ERS bills participating employers based in part on salaries paid to retirement system members, as reported by the employers. Ineligible individuals could receive benefits to which they are not entitled at retirement. Therefore, it is essential that District officials implement policies and procedures to ensure that retirement reports are accurate, complete, and adequately supported. District officials have a responsibility to ensure the persons they enroll in ERS are eligible.

The basic distinction between an employee and an independent contractor is that an employee undertakes work under the direction of the employer as to the manner in which the work is to be accomplished, while an independent contractor agrees to undertake work, but is not subject to orders of the employer as to the manner used to perform that work. Employees have their work hours and duties fixed by their employer, and they are compensated by salary or wages and other benefits (e.g., sick leave, vacation leave) based on collective bargaining agreements or other employment agreements. Independent contractors, on the other hand, are usually retained to do specialized or expert services, but are not supervised with respect to how those services are rendered. School Districts do not spell out a contractor’s work hours and duties in a job description, and generally they do not provide equipment, training or other resources to perform the agreed upon services.

District officials did not adopt policies or procedures regarding proper classification of workers and did not ensure that ineligible

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2 This checklist, entitled “Distinguishing Between an Employee and an Independent Contractor,” is available from ERS.
3 www.osc.state.ny.us
individuals are not enrolled in ERS. Consequently, the District improperly classified an independent contractor, who is not eligible to join the system, as an employee. District officials were not required to document decisions regarding an individual’s classification or to maintain evidence of the individual’s classification status, increasing the risk that the District could improperly enroll ineligible workers in ERS.

During the 2006-07 fiscal year, the District paid $23,000 to an attorney through its bi-weekly payroll and paid his law firm $57,495. From July 1, 2007, through February 29, 2008, the District paid the attorney’s law firm $38,097. Based on the District’s records, from July 1, 2007, through the last payroll check on February 15, 2008, the District paid the attorney $16,192. We found that although the attorney did not meet the OSC criteria for employee status, he had been reported to ERS by the District since 1990, had an agreement with the District which indicated that he would receive an annual salary of $23,000 for the 2006-07 fiscal year and $25,000 for the 2007-08 fiscal year, and he would provide additional legal services for a fee.

The District had no documentation to explain how the attorney’s classification was determined. We reviewed the attorney’s agreement with the District dated June 7, 2006, which indicates that the attorney has been employed by the Board since 1984. The agreement specifies that the attorney will attend monthly Board meeting, review District policies, bid specifications and collective bargaining agreements, and advise the Board. The agreement further states that the attorney will provide additional services such as litigation, arbitration, and negotiations at specified hourly rates.

Based upon our interviews with District officials and review of agreements and payroll records, we found that the attorney would determine his own work hours and was not required to submit timesheets, did not receive annual performance evaluations, or was not required to attend any District training. Additionally, as indicated in his agreement with the District, he would hire other individuals from his firm, who were paid by him and not the District, in the event he was not available to conduct the annual District meeting. Furthermore, the attorney also provided services to other school districts. Based upon these factors, we determined that the District did not exercise the degree of control over the attorney or his work that defines a true employer/employee relationship. We concluded that this individual was an independent contractor. Therefore, he was not entitled to public-employee pension benefits paid for by taxpayers and should not have been enrolled in ERS. This incorrect classification resulted in the District and its taxpayers improperly
providing payments to ERS, and contributions to the District’s health insurance plan on his behalf.

District officials indicated that the District and the attorney mutually agreed to stop paying him through the District’s payroll as of February 16, 2008. We notified ERS of our findings, and as a result, this individual’s ERS membership status was revoked in May 2008. However, if District officials do not strengthen controls over their worker classification process, the District will remain at risk of incorrectly classifying workers and improperly enrolling non-employees in ERS, as well as making inappropriate retirement benefit contributions on their behalf.

**Recommendation**

13. The District should implement policies and procedures to ensure that only valid public employees are enrolled in ERS and regularly monitor the effectiveness of these control measures.
Computer Data Safeguards

The use of information technology (IT) affects the fundamental manner in which the District initiates, processes, records and reports transactions. The extent to which computer processing is used in significant account applications, and the complexity of that processing, determines the specific risks that IT poses to the District’s internal controls. The District’s widespread use of IT presents a number of internal control risks such as unauthorized access to data and inadequate controls to safeguard computerized data. If the computer operating systems on which data is stored fail or are compromised, the result could range from inconvenient to catastrophic. Even small disruptions in electronic data systems can require extensive effort to evaluate and repair. To help mitigate the risk of misuse and/or alteration of data resulting in potential financial loss, District officials need to establish computer policies and procedures to set standards and expectations for responsible use of District computing resources. Additionally, it is important that computer data be physically secured and a formal disaster recovery plan be established to provide guidance to prevent the loss of data as well as the recovery of data in the event of a disaster.

Our audit disclosed that District officials did not sufficiently address the safeguarding of computer data. Specifically, District officials have not developed comprehensive policies and procedures regarding the safeguarding of computer data, including an acceptable computer use policy for District employees. We also found that servers are not protected from unauthorized access, back-up data is not adequately secured, and a formal disaster recovery plan has not been established. As a result, the District’s IT system and critical electronic financial data are subject to an increased risk of loss or misuse.

Policies and Procedures

It is the Board’s responsibility to design and implement policies to protect the District computer systems. Policies and procedures should address key security areas such as acceptable computer use, data and virus protection, password security, and remote access. Policies must be comprehensive, enforceable, concise, easy to understand, and balance IT protection with productivity. Procedures should be established to outline how to carry out policy requirements and define mechanisms to enforce compliance.

The District does not have comprehensive IT policies and written procedures in place that adequately address all major areas of IT operations and that inform employees on how computers should be used. The District has a policy of acceptable computer use for students;
however, District officials did not establish a similar policy for its employees. We also found that the 34 employees who have user rights to the financial application were given access to the network without any clear guidance and procedures on acceptable computer use. The failure of District officials to establish comprehensive policies and procedures to guide employees on safe and responsible computer use may increase the risk that District employees could alter or misuse electronic records or engage in inappropriate or damaging actions. Furthermore, because the District did not have comprehensive IT policies and procedures, there is an increased risk of inappropriate and unauthorized access to the IT system and of computerized data being compromised.

**Server Room Access**

An effective internal control system protects and restricts physical access to IT system components, such as server rooms. Unrestricted access to the server room is dangerous to the security of the District’s computer system. District officials can establish security by controlling access to the server where data resides and by physically securing it in a locked room. Additionally, it is important that servers are located in a room with adequate ventilation where access is controlled.

The District has not established policies and written procedures over the physical security of its IT assets, which increases the risk of damage and misuse. The District has three servers, one in each school, which are not adequately secured. None of the server rooms we visited were locked, physical access to the rooms was not tracked or monitored, and one of the three server rooms was not adequately ventilated. This resulted in an increase risk of data being vulnerable to loss.

During our visits to the three server rooms, we found that there were no logs kept to track or monitor physical access to the server rooms. One of the server rooms, which housed the District’s financial information, also has a restroom located in the unlocked room which is accessible to all employees. The room is also used to store office supplies and water inventory. One of the servers is not located in a room; instead, it is located under a desk in the school’s Administration Office. The third server is located in an unlocked closet in the faculty room which is accessible to all employees. This closet is not adequately ventilated, and there is no fire extinguisher, smoke alarm or humidity temperature control. Under the existing conditions, it would be difficult for District officials to prevent unauthorized and/or malicious access to these assets or to identify the party responsible if such malicious access did occur. In addition to the potential loss of costly equipment, server failures can result in additional work for IT staff and a decrease in productivity for employees whose work is interrupted.
**Back-Up Data**

Data should be backed up (a duplicate copy of information made) on a routine basis. To establish its validity, the backup should be tested on a routine basis so it can be restored in the event of a loss of data. The District’s ability to restore computer data relies on the integrity of its back-up data. Back-up copies of data must be stored at an environmentally and physically secured off-site location.

The District performs a nightly backup of their non-financial and student data. However, the back-up tapes are stored in the same room where the server, containing the original data, resides. At one location, we observed back-up tapes lying on the floor in the closet next to the server. We also found the back-up data have not been tested or restored and District officials have not requested that back-up data be tested and restored. This procedure renders the tapes useless in the event that the server room or building experiences a loss of operational capability due to flood, fire, accident, or any other disruption. Furthermore, the failure to periodically test and restore the back-up data leaves the District with no assurance that the data is complete and reusable.

**Disaster Recovery Plan**

An effective internal control system for IT also requires that the Board adopts a formal disaster recovery plan (DRP), which addresses the possible loss of computer equipment and data and establishes procedures for recovery in event of such a loss. The DRP should address the range of threats to the District’s IT system, including the need to adequately back-up all mission-critical data. It is important that the DRP be distributed to all responsible parties, periodically tested and updated as needed.

We found that District officials have not established formal policies and procedures to address potential disasters. In the event of a disaster, District 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.

**Recommendations**

14. District officials should develop and implement comprehensive IT policies that adequately address all major areas of concern and the Board should adopt such policies.

15. District officials should develop and implement an acceptable use policy for District employees and should ensure that all computer system users read the terms and condition of the policy before they are given network access.

16. District officials should restrict physical access to the IT system. Physical components of the IT system should be located in an
adequately ventilated area that is protected from unauthorized access.

17. District officials should store back-up tapes at an environmentally and physically secure off-site location.

18. District officials should test the integrity and validity of the back-up tapes by periodically restoring the backup data.

19. The Board should adopt a disaster recovery plan that provides guidelines to help minimize and prevent the loss of computer data and to implement data recovery procedures.
APPENDIX A

RESPONSE FROM DISTRICT OFFICIALS

The District officials’ response to this audit can be found on the following pages.
June 18, 2009

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

Dear Mr. Leonard:

This letter represents our school district’s response to the draft Audit Report of our district, also known as Franklin Square Union Free School District Internal Controls Over Selected Financial Operations: Report of Examination (for) Period Covered July 1, 2006-January 31, 2008 which we received from your office on May 21, 2009 and was dated May 19, 2009. We were pleased to be able to discuss the report with [redacted] and [redacted] on June 5, 2009, and much of the response contained herein was also discussed at length in that exit interview. We were also pleased to be able to express our general satisfaction with the process and interactions, as well as to offer our assurances that the recommendations that were offered will be (or, in many cases, already have been) implemented. They were useful, helpful and will assist the district in further safeguarding both data and the fiscal resources we are entrusted with by the Franklin Square community.

We also appreciated the opportunity to suggest two changes in the language of the report, and we sincerely appreciate consideration of those requests. They were offered with the intent of developing a more thorough report, one that offers an historical perspective on how certain matters came to occur, and how others were remedied prior to your office’s visit. These suggestions were also offered with the hope that the report would represent a “win/win” scenario, one that demonstrates that various branches of government can effectively collaborate to solve problems.
As requested, this letter addresses the Draft Audit Report section by section, beginning with the Executive Summary

COMMENTS REGARDING EXECUTIVE SUMMARY

The Executive Summary deals with the various topics addressed at greater length in the body of the report, but in fact offers details in this summary that are absent from the report proper. Therefore, we will respond to some of those itemized here while reserving some of the remedial actions to be taken and historical information for later in our letter.

While competitive proposals are not required in most of the cases cited within this summary, the district has engaged in a competitive selection process for the special education services that were reviewed here. We did, and will continue to, seek quotes on these services and will always endeavor to choose the least expensive provider, while also balancing the specific needs of our special education students. When possible we will bid for these items, although we are in agreement that this is not required in many of these cases.

Regarding the gasoline credit cards that were reviewed, our bus-drivers were not required to sign for their purchases by the vendor as the process was completed “at the pump” and there is no mechanism that would allow them to sign. We have found a mechanism to add this process to the expedited purchase that has previously allowed us to return busses and drivers to the road more quickly. Signatures are now being affixed. As you note, these were all appropriate district purchases.

We will discuss check signing processes at greater length in the body of our letter, but two thoughts needs explicit emphasis here: First, we were advised to enact the policies that are in place by the Internal and External Auditors we are obligated to employ, and thought we were following sound advice. Second, we will immediately correct these policies based on your directives to be in compliance with the law. Again, we are pleased that you found no irregularities.

Our relationship with our Attorney was amended before the arrival of your office and we have since reviewed relationships with all independent contractors to be certain that none of them are classified as employees. None are.

Finally, we value the assistance you offer in the area of the protection of computer systems and data. Your resources are more extensive than ours, and the expert advice offered by your staff will be put to excellent use by the individual in our technology department.
COMMENTS REGARDING PROCUREMENT

Requests for Proposals- The District created an RFP for professional services related to students with special needs in January 2008. Subsequently the RFP has been issued prior to the annual reorganization meeting and the District assigns services after contacting three respondents to the RFP. The District will continue to issue RFPs for professional services as needed or required by law for accounting, auditing and legal services.

Competitive Bidding- In the cases cited, we did get multiple quotes but did not engage in competitive bidding. Under similar circumstances, we will certainly employ this more expansive procedure. The public work contracts noted were obtained through county bids and met the requirements of the law. The District has implemented procedures to confirm state and county contract pricing and vendors. Again, prior to engaging in that process again, we would confer with our auditors or with your office.

Competitive Quotations- The district policies associated with competitive quotations do appear to be in need of expansion. These policies will be reviewed and among the items to be elaborated upon will be the exact number of written or verbal quotes required. Additionally, a means to maintain a record detailing the specifics of all quotations must be determined.

Credit Card Claims- We do note that the Credit Cards referenced are gas cards used only by our transportation staff, and a Home Depot Credit Card used to purchase materials in emergent situations. There are no credit cards issued to Board Members or District Administrators. As noted earlier in this letter, those signatures that were missing were the result of electronic gas purchases like those commonly made at gas pumps for the purpose of convenience. As noted above, this issue has been addressed and signatures are now required for all purchases.

We also note that these procedures were not appropriately reviewed by our former Internal Claims Auditor. This individual was replaced, by issuing an RFP for professional services, just prior to the arrival of your auditing team, and many of the issues you identified in this section were remedied by this new Internal Claims Auditor.

COMMENTS REGARDING CHECK SIGNING PROCESS

Of all of the findings offered by your office, we find those in this section the most troubling and those that deserve the most urgent reaction by the district and the Board of Education.

Until early in 2007, the District Treasurer, after having been duly appointed by the Board of Education, was the signatory on all checks, by
way of an electronic signature disk, the use of which was supervised by her. However, this individual was not an employee of the district and was present in the district only a few hours each week. Based on these facts, both our External Auditors and Internal Auditors recommended to us that a district employee be given this task such that they would be present on a more regular and regulated basis. Based on this advice, the Board appointed one of our Assistant Superintendents (not working in the business office, thus insuring segregation of these duties) as the authorized signer of checks. Our District Treasurer remained appointed and completed other oversight activities as well. This arrangement was approved by both of our auditors and we were not aware that it represented any violation.

Our clear frustration in this is that we did not take this action without the advice of those who are reviewing our fiscal management. What we were told would be an enhancement to our procedures proves to be a practice that you find inappropriate.

We are pleased that you note that there were “no inconsistencies among the cancelled checks, claims vouchers, and warrants reviewed”; however, we also acknowledge that this arrangement must be immediately modified in order to be within the scope of law and regulation. This change will take place at the July 1, 2009 Re-organizational Meeting of the Board. A Treasurer will be appointed who is also a full time employee of the district and that person will affix their signatures to checks in the appropriate manner.

The entire process of check-signing, and all policies related to it will be reviewed this year and all appropriate changes will be made in short order. We thank the Comptroller’s Office for bringing this matter to our attention, and rest assured that we will review it with both of our auditing firms.

We are also in the process of reviewing the appropriate amounts of all surety bonds with our various insurers and fiscal advisors. Upon their recommendation, we may increase bond limits for all individuals noted.

**COMMENTS REGARDING CLASSIFICATION OF AN INDEPENDENT CONTRACTOR**

The public policy issue involving the classification of Independent Contractors had been successfully resolved prior to the arrival of your agency. The Franklin Square School District resolved this matter by way of Board action in March of 2008 by accepting a resignation that had been tendered on February 15, 2008. The individual, who had been incorrectly classified as an employee, was reassigned as an Independent Contractor and all appropriate modifications made to his employment agreement at the March 2008 public meeting of the Board of Education.
When your audit began with the school district in 2008, these documents were offered to you for your review upon your arrival.

The district does acknowledge that prior to that date the classification of this individual had followed previously accepted, but since revised, practice. In an effort to prevent such an occurrence from ever taking place again, the district has reviewed the status of all individuals with whom we contract to make certain that none are classified as employees. We have also reviewed district policies and procedures to make certain that this does not occur again.

COMMENTS REGARDING COMPUTER DATA SAFEGUARDS

The Franklin Square School District is a small one, yet like Webster’s Dartmouth, there are those who love it. As a small district, our Technology Department is essentially composed of one individual. Therefore, your recommendations in this arena are especially welcome and useful to the district. We have already undertaken to adopt virtually all of them and many of the policies that were recommended have been or are being developed.

Policies and Procedures- A systematic review of our Instruction Technology protocols has resulted in an Acceptable Use Policy for district employees which has been adopted by the Board.

Server Room Access- The issue of server room access has been addressed in full. At present, all servers holding financial information are located in the central office and are in locked rooms, accessible to very few individuals and are in a location where access can be monitored carefully. We are in the process of providing a similar level of security for the servers that contain student data. While these still remain in our three buildings, they will be in spaces that are locked and ventilated.

Back-up Data- The District is developing a plan to test and verify our backup data. The first test is scheduled for the summer of 2009. Backup tapes have been relocated to a secure vault. An additional set of backup tapes are removed from the premises and housed off-site in a secure location.

Disaster Recovery- All data is now stored in duplicate form off site, utilizing the services of our local BOCES. For software that we utilize through other vendors, we are confirming with them that a disaster recovery plan does exist that would allow us to recover lost data in the event of an unanticipated occurrence. A more formal District Data Recovery Plan will be developed and appropriate policies adopted to support such a plan, of course.
SUMMARY

These comments are offered, at your invitation, as a response to your report. We appreciate the opportunity to do so, as well as the assurances that they will be considered in the preparation of the final document that your office will issue. This is part of the civil dialogue that has characterized the visitation and subsequent reporting by your office. Based on this productive experience, we remain convinced that your office and this district are more than committed to protecting the fiscal assets of New Yorkers.

Thank you for your hard work, comments and this opportunity to reply. We will be providing you with our remedial plan, as required, before August 19, 2009.

Sincerely yours,

Joseph Armocida
President
Franklin Square School District
APPENDIX B

OSC COMMENTS ON THE DISTRICT’S RESPONSE

Note 1

We applaud the steps that District officials have taken, subsequent to the start of our audit, to use RFPs for acquiring professional services. During our fieldwork, District officials informed us that they were in the process of developing an RFP for professional services related to students with special needs. However, we have not reviewed that new process. An RFP process is a good management practice that should be followed and would help ensure that the District obtains needed services at a reasonable price.

Note 2

District officials did not provide documentation to substantiate whether the public work contracts were obtained through county bids.

Note 3

The Board appointed a new claims auditor effective January 2008, the end of our audit period. However, one of the nine credit card claims reviewed, totaling $883, was approved by the new claims auditor in January 2008, even though it was not supported with adequate documentation.
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 objective and scope by selecting for audit those areas most at risk. We selected procurement, the check-signing process, employee classification and computer data safeguards for further audit testing.

To accomplish the objective of this audit, our procedures included the following:

- We reviewed the policies and procedures relevant to gaining an understanding of internal controls over the procurement process, the Treasurer’s check-signing process, employee classification, and computer data safeguards.
- We focused on adherence to Laws, regulations and District policies and procedures relating to purchasing and check-signing.
- We reviewed written agreements and Board resolutions for the professional service providers selected for testing.
- We interviewed District officials, specifically the Director of Special Education, regarding the procedures in place for acquiring professional services.
- We interviewed account clerks and District officials regarding the bidding and quote procedures.
- We examined vendor payments, warrants and cancelled checks to identify any associated effect of deficiencies found due to the lack of controls.
• We focused our attention on purchasing and claims auditing procedures, particularly the approval of purchases and payments for various types of goods and services acquired.

• We interviewed District personnel regarding the check-signing functions and observed the check-signing process.

• We reviewed the District’s policies and procedures for categorizing an employee versus an independent contractor.

• We reviewed contracts between the Board and the individual providing legal services, payments made for legal services and claims packages.

• We interviewed the Director of Technology concerning the computer-use policy, passwords, physical access to the system, backing up of the data, and the disaster recovery plan.

• We physically inspected the location of network equipment and corresponding back-up tapes.

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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