

Jericho Union Free School District

**Annual Risk Assessment Update
Pertaining to the Internal Controls
of District Operations**

June 2015

**INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED UPON PROCEDURES**

The Board of Education
Jericho Union Free School District

We have performed the procedures enumerated below, which were agreed to by the Jericho Union Free School District (the "District"), solely to assist the District. This agreed upon procedures engagement was performed in accordance with auditing standards established by the American Institute of Certified Public Accountants and the applicable standards contained in Government Auditing Standards, issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of the specified users of the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

We have updated our June 2014 Risk Assessment by performing certain internal audit procedures pertaining to the time period starting July 1, 2014 through June 30, 2015. The updated Risk Assessment and related internal audit plan concentrates on the following key internal control areas:

- Governance and Planning
- Budget Development
- Accounting and Reporting
- Revenue and Cash Management
- Grants
- Payroll
- Human Resources
- Benefits
- Purchasing and Related Expenditures
- Facilities/Capital Projects
- Fixed Assets
- Food Service
- Extraclassroom Activity Fund
- Information Systems
- Pupil Personnel Services
- Transportation
- Safety and Security

We are available to discuss this report with the Board of Education or others within the District at your convenience.

Our engagement is limited in scope and will be confined to our agreed-upon procedures. We will not be conducting an audit or review of the district's financial statements and therefore we will not express an opinion or any other form of assurance on them.

At the end of our engagement, we will present the results of applying the agreed-upon procedures in the form of our findings in a report. Our report should be used only for the intent of the original users of this report, and will include a statement indicating that had we performed additional procedures, other matters might have come to our attention that would have been reported to you. As such, using this report for anything other than the original intent of the agreed-upon procedures could mislead the readers. You must notify us immediately if the original users of the report change.

Very truly yours,
Nawrocki Smith LLP
June 12, 2015

Jericho Union Free School District

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Risk Assessment Overview

This Risk Assessment report provides a presentation of our view of the school district's risk pertaining to its financial operations. It gives the District's administration the information necessary to help optimize its overall performance. The report identifies, expresses, and prioritizes the key program risks so that the District's administration can focus on those areas most critical to its success. This analysis is used to define the District's risk profile. It will provide an overview of the risks facing the District's operations.

In accordance with the laws of New York, 2005, Chapter 263, all school districts and BOCES were required to establish an internal audit function no later than July 1, 2006 and be in operation no later than December 31, 2006. This function should include, at a minimum, development of a risk assessment of district operations, including but not limited to:

- a review of financial policies, procedures and practices
- an annual review and update of such risk assessment
- annual testing and evaluation of one or more areas of the District's internal controls
- preparation of reports which analyze significant risk assessment findings
- recommended changes for strengthening controls and reducing identified risk; and specifying time frames for implementation of such recommendations

Pursuant to Section 170.12 – Regulations of the Commissioner of Education – School District Financial Accountability, each school district must prepare a corrective action plan, approved by the Board of Education in response to findings to final reports issued by the internal auditor. This plan should include expected dates of implementation and should be filed with the New York State Education Department.

Internal Audit Objectives

The objectives of our engagement are as follows:

- develop an understanding of the critical business processes of the District within each functional area
- identify and qualify risks based on the understanding of the business processes and stated business rules
- identify stated controls that are currently in place to address those risks and ascertain if they are operating effectively
- recommend improvements in internal controls

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Scope and Methodology

The Board of Education has engaged Nawrocki Smith as the District's internal auditor. In compliance with New York State Laws, we have performed an annual update to the District risk assessment with respect to policies, procedures, and internal controls pertaining to District operations. The procedures applicable to the annual update of the District's risk assessment were performed during the fiscal year ending June 2015 and were carried out in order to determine an internal audit plan for fiscal year 2015/2016 and thereafter. This risk assessment will be updated annually to reflect any changes in the current control environment and the existing internal audit plan.

Our risk assessment consisted of the following methodology:

- Perform interviews of Administration and other appropriate personnel
- Document procedures within key Functional Areas
- Identify key controls and perform audit tests of those controls
- Assess effectiveness of the key controls
- Identification and review of organization structure
- Analysis of risks that are a threat to the achievement of objectives
- Create a risk profile and internal audit plan

In addition to the above procedures, we have also evaluated and considered the following within our overall risk assessment:

- District policies and procedures
- Recent focus of State Comptroller Audits
- Board of Education/Audit Committee Meetings
- Materiality to Financial Statements
- Changes in management or key personnel
- Financial reports provided to the Board
- External auditor management letters
- District corrective action plans
- Organizational chart and job descriptions

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Internal Audit Risk Assessment Update Summary

We have analyzed seventeen (17) Business Process areas within the District and have developed an internal audit plan based upon our assessment of each area. Each of the seventeen (17) Business Processes contains multiple categories for which an extensive cycle analysis will be performed during the proposed time period noted within the risk rating and internal audit plan. The plan as presented will be revised each year based upon the annual risk assessment update and events/requests that occur during the year which impact the priority of future internal audit services.

The results of our updated risk assessment are summarized below and in the tables presented on pages 5 through 6. We have utilized a “Low,” “Moderate,” and “High” control risk rating assessment scale of the District.

Current Year Rating

<u>Rating</u>	<u>Count</u>	
High	-	0.00%
Moderate	4	5.13%
Low	74	94.87%
Total	78	100.00%

Changes from Prior Year

<u>Category (*)</u>	<u>Count</u>
“High” to “Low”	- 0.00%
“High” to “Moderate”	- 0.00%
“Moderate” to “Low”	- 0.00%
“Low” to “Moderate”	1 100.00%
“Moderate” to “High”	- 0.00%
Total	1 100.00%

(*) Refer to pages 5 through 6 for business process rating changes.

- The June 2015 risk assessment update contains three (3) current year recommendation.
- The June 2014 risk assessment update report contained one (1) recommendation:

<u>Business Process</u>	<u>Complete</u>	<u>In-Process</u>	<u>Not Complete</u>	<u>Total</u>
Total	-	1	-	1

We have summarized below our work plan for the 2015/2016 fiscal year:

Cycle Review:

- Food Service

Other 2015/2016 Planned Internal Audit Services:

- Key Control/Other Testing (See “T” categories on pages 5 through 6)
- External Audit Corrective Action Plan Monitoring
- Safety and Security Recommendations Follow-Up
- Quarterly Internal Audit Status Reports
- Annual Risk Assessment Update as of June 2016
- Other Internal Audit Services at the Request of the District/BOE

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Risk Rating and Internal Audit Plan

✓ = Internal Audit Services Provided
 ◆ = Business Cycle Review Complete

X = Proposed Business Cycle Review
 T = Limited Testing of Business Process

	Business Process	Business Process Categories	RISK				YEAR OF SERVICE		
			Inherent	Control		Prior Years	15-16	16-17	Subsequent Years
				13-14	14-15				
1	Governance and Planning	Governance Environment	H	L	L				X
		Control Environment / Policies & Procedures	H	L	L	✓			X
2	Budget Development	Budget Development	H	L	L	✓			X
		Budget Monitoring & Reporting	M	L	L				X
3	Accounting & Reporting	Financial Accounting and Reporting	H	L	L	◆	T		
		External/Internal/Claims Auditing	H	L	L	◆			
		Fund Balance Management	H	L	L	◆			
4	Revenue & Cash Management	Real Property Tax	M	L	L	◆			
		State Aid	H	L	L	◆			
		Out of District Tuition/Reimbursable Expenses	M	L	L	◆			
		Use of Facilities	L	L	L	◆			
		Donations	M	L	L	◆			
		Vending Machines	H	L	L	◆			
		Cash Receipts	H	L	L	◆			
		Cash/Investment Management	H	L	L	◆			
		Petty Cash	L	L	L	◆			
		Bank Reconciliations	H	L	L	◆	T		
Online Banking	H	L	L	◆					
5	Grants	General Processing	H	L	L				X
		Grant Application	M	L	L				X
		Expenditures and Allowable Costs	H	L	L				X
		Cash Management	M	L	L				X
		Reporting and Monitoring	H	L	L				X
6	Payroll	Payroll Disbursements	H	L	L	◆	T		
		Overtime Payments	H	L	L	◆	T		
		Payroll Accounting & Reporting	H	L	L	◆			
		Payroll Tax Filings	H	L	L	◆			
		Payroll Reconciliation	H	L	L	◆			
7	Personnel	Employment Requisition/Hiring	H	L	L	◆			
		Personnel Evaluation	H	L	L	◆			
		Termination	H	L	L	◆			
		Employee Attendance	H	L	L	◆			
8	Benefits	Eligibility	H	L	L	◆			
		Benefit Calculations	H	L	L	◆			
		Patient Protection and Affordable Care Act	H	N/A	L	◆			
		Retiree Benefits	H	L	L	◆			

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	Business Process	Business Process Categories	RISK				YEAR OF SERVICE		
			Inherent	Control		Prior Years	15-16	16-17	Subsequent Years
				13-14	14-15				
9	Purchasing & Related Expenditures	Purchase Order System and Process	H	L	L	◆			
		Bidding/RFPs/Quotes	H	L	L	◆			
		Payment Processing	H	L	L	◆			
		Employee Reimbursements	H	L	L	◆	T		
		Credit Cards	H	L	L	◆			
		Vendor Database	H	L	L	◆			
10	Facilities/Capital Projects	Facilities Maintenance and Work Order Process	H	L	L				X
		Capital Project Planning and Monitoring	M	L	L				X
		Capital Project Funding and Payments	M	L	L				X
		Capital Project Recordkeeping	H	L	L				X
		Facilities and Capital Project Reporting	H	L	L				X
11	Fixed Assets	Inventory/Capitalization Policy	H	L	L	◆			
		Acquisition and Disposal	L	L	L	◆			
		Inventory	H	L	L	◆			
12	Food Service	Sales Cycle and System	H	M	M	◆	X		
		Inventory and Purchasing	M	L	L	◆	X		
		Free and Reduced Meals	M	L	L	◆	X		
		Federal and State Reimbursement	M	L	L	◆	X		
		Financial Reporting	M	L	L	◆	X		
13	Extraclassroom Activity Fund	General Controls	H	L	L	◆			
		Cash Receipts	H	L	L	◆	T		
		Expenditures	H	L	L	◆	T		
		Reporting	H	L	L	◆			
14	Information Systems	General Controls and Governance	H	L	L	◆			
		Network Security	H	M	M	◆			
		Inventory	M	L	L	◆			
		Financial Application Security	H	L	L	◆			
		Other Application Security	H	L	L	◆			
		Disaster Recovery	H	L	L	◆			
15	Pupil Personnel Services	Budgeting and Planning	H	L	L	◆			
		STAC Aid Reimbursement	H	L	L	◆			
		Medicaid Reimbursement	H	L	L	◆			
		RFP and Contracts	H	L	L	◆			
16	Transportation	Fleet Inventory and Maintenance	H	L	L	◆			
		Bus Routing and Planning	H	M	M	◆			
		Labor and Supervision	H	L	L	◆			
		Contract Management	H	L	L	◆			
		Federal and State Aid Reimbursement	H	L	L	◆			
17	Safety & Security	Plan Development and Strategy	H	L	L	◆			
		Building Access and Security System	H	L	M	◆			
		Compliance and Incident Reporting	H	L	L	◆			
		Safety and Security Monitoring	H	L	L	◆			

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Inherent Risk - Inherent risk is the risk of a material misstatement in the un-audited information assuming the absence of internal controls procedures.

Control Risk - Control risk is the risk that a material misstatement in the un-audited information will not be detected and corrected by the management's internal control procedures on a timely basis.

Risk Assessment Observations and Recommendations

Current Year Observations and Recommendations

Safety & Security

1. The District's building Emergency Response Plans require each building to maintain Emergency Response Kits ("Speed-Bags") for an Administrator to bring in the event of an emergency. The Plans specifies items to be included in the "Speed-Bag." During the course of our walkthroughs, we noted that each building had a "speed-bag" which were missing some items such as teacher sign in sheets, copies of Emergency Response Plans, caution tape, floor plans, vests, etc.
 - *We recommend that the District review the items contained in each "Speed Bag" and update them accordingly for required items.*
2. During the course of our walkthrough observations, we noted a few locations in which exterior doors, which are not monitored, were unlocked or propped open. This poses a risk that an unauthorized individual could gain access to the school building or that a student could exit the school building and/or grounds without being noticed.
 - *We recommend the District remind staff that all exterior doors that are not monitored should be closed and locked to prevent unauthorized entry.*
3. During the course of our walkthrough observation, we noted that some custodial/storage areas were not properly secured to prohibit access by students and unauthorized personnel. These areas often contain tall shelving, cleaning products, cleaning equipment, and/or building infrastructure equipment which could cause harm to students and other individuals if not properly supervised.
 - *We recommend the District remind custodial staff and other personnel to properly secure custodial and storage areas when not in use to prevent unintentional entry by students and staff.*

It should be noted that there were no observations or recommendations within the areas of bank reconciliations, journal entries, budget transfers, insurance benefits, or retiree benefits which were also reviewed during the 2014-2015 school year.

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Status of Prior Year Recommendations

We have performed follow-up internal audit services applicable to our previously issued risk assessment update report dated June 2014. The services we performed included observing and evaluating the implementation status of the District's action plan in respect to our risk assessment recommendations.

The June 2014 risk assessment update report identified one (1) recommendation. The District has completed or taken action as follows:

<u>Business Process</u>	<u>Complete</u>	<u>In-Process</u>	<u>Not Complete</u>	<u>Total</u>
Information Systems	-	1	-	1
Total	-	1	-	1

Information Systems

1. **Recommendation from June 2014 Risk Assessment:** As a best practice, the District should review remote access logs on a periodic basis for any unauthorized or unusual activity. This review process should be documented on the remote access logs. Additionally, the District should review and update the listing of remote access rights on an annual basis.

Status at June 2015: In Process.

**Jericho Union Free School District
Internal Audit - Nawrocki Smith
History of Internal Audit Reports Issued
July 2006 through June 2015**

<u>Report Type</u>	<u>06/07</u>	<u>07/08</u>	<u>08/09</u>	<u>09/10</u>	<u>10/11</u>	<u>11/12</u>	<u>12/13</u>	<u>13/14</u>	<u>14/15</u>
<u>Cycles:</u>									
Accounting & Reporting	-	-	-	-	-	✓	-	-	-
Revenue and Cash Management	-	-	-	-	✓	-	-	-	-
Payroll & Personnel	✓	-	-	-	-	-	-	-	-
Benefits	-	-	-	✓	-	-	-	-	-
Purchasing & Related Expenditures	-	-	-	-	-	-	-	-	-
Fixed Assets	-	-	✓	-	-	-	-	-	-
Food Service	-	✓	-	-	-	-	-	-	-
Extraclassroom Activity Fund	-	✓	-	-	-	-	-	-	-
Information Systems	-	-	✓	-	-	-	✓	-	-
Pupil Personnel Services	-	-	-	-	✓	-	-	-	-
Transportation	-	-	-	-	-	-	-	✓	-
Safety & Security	-	-	-	-	-	-	-	-	✓
<u>Key Control Testing:</u>									
Budget Transfers	-	✓	✓	✓	-	-	✓	-	✓
Journal Entries	-	✓	✓	✓	✓	-	✓	-	✓
Collection and Posting of Cash Receipts	-	✓	✓	✓	-	-	✓	-	-
Bank Reconciliations and Treasurer's Reports	✓	✓	✓	✓	-	-	✓	✓	✓
Payroll Disbursements	-	-	-	✓	✓	✓	✓	-	✓
Employee Attendance	-	-	-	✓	✓	✓	-	-	-
Benefit Calculations	-	-	-	-	-	-	✓	-	✓
Cash Disbursements	-	-	✓	✓	✓	-	-	✓	-
Fixed Assets Inventory	-	-	-	-	-	-	✓	-	-
Extraclassroom Activity Fund	-	-	-	-	✓	-	-	✓	-
STAC and Medicaid Reimbursements	-	-	-	-	-	-	✓	-	-
Retiree Insurance	-	-	-	-	-	-	-	-	✓
Vending Machines	-	-	-	-	-	-	-	✓	-
<u>Other Internal Audit Services:</u>									
Observation of the Fuel Storage and Use Process	-	-	✓	-	-	-	-	-	-
Payroll Payout Audit	-	-	✓	✓	✓	✓	✓	✓	✓
Corrective Action Plan Monitoring	-	✓	✓	✓	✓	✓	✓	✓	✓
Risk Assessment Update	-	✓	✓	✓	✓	✓	✓	✓	✓

Jericho Union Free School District

Nawrocki Smith - Internal Audit

2015/2016 INTERNAL AUDIT PLAN

Cycle Review

- **Food Service**

Status

Planned for Feb-16

Key Control Testing

- **Bank Reconciliations**
- **Employee Reimbursements**
- **Extraclassroom Activity Funds**
- **Journal Entries**
- **Budget Transfers**
- **Payroll Disbursements**

Status

Planned for Sep-15
Planned for Oct-15
Planned for Nov-15
Planned for Dec-15
Planned for Dec-15
Planned for Jan-16

Additional Internal Audit Services

- **Issue Quarterly Status Reports**
- **Annual Risk Assessment Update as of June 2015**
- **Payroll Payout Audit**
- **Other Internal Audit Services at the Request of the District**

Status

Quarterly
Planned for Jun-16
TBD
As Requested