

Jericho Union Free School District

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

June 2013

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 standards established by the American Institute of Certified Public Accountants. 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 2012 Risk Assessment by performing certain internal audit procedures pertaining to the time period starting July 1, 2012 through June 30, 2013. 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
- Security and Safety

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 accountants' 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
September 10, 2013

Jericho Union Free School District

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June 2013

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Jericho Union Free School District
Annual Risk Assessment
June 2013

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

Jericho Union Free School District
Annual Risk Assessment
June 2013

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 2013 and were carried out in order to determine an internal audit plan for fiscal year 2013/2014 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

Jericho Union Free School District
Annual Risk Assessment
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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	3 4.11%
Low	70 95.89%
Total	73 100.00%

Changes from Prior Year

<u>Category (*)</u>	<u>Count</u>
“High” to “Low”	- 0.00%
“High” to “Moderate”	- 0.00%
“Moderate” to “Low”	5 83.33%
“Low” to “Moderate”	- 0.00%
“Moderate” to “High”	- 0.00%
Total	5 100.00%

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

- The June 2013 risk assessment update contains three (3) current year recommendations.

We have summarized below our work plan for the 2013/2014 fiscal year:

Cycle Review:

- Transportation

Other 2013/2014 Planned Internal Audit Services:

- Key Control/Other Testing (See “T” categories on pages 5 through 6)
- External Audit Corrective Action Plan Monitoring
- Information Systems Cycle Recommendations Follow-Up
- Quarterly Internal Audit Status Reports
- Annual Risk Assessment Update as of June 2014
- 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	13-14	14-15	Subsequent Years
				11-12	12-13				
<u>1</u>	<u>Governance and Planning</u>	Governance Environment	H	L	L				X
		Control Environment / Policies & Procedures	H	L	L	✓			X
<u>2</u>	<u>Budget Development</u>	Budget Development	H	L	L				X
		Budget Administration	H	L	L	✓			X
		Budget Monitoring & Reporting	M	L	L				X
<u>3</u>	<u>Accounting & Reporting</u>	Financial Accounting and Reporting	H	L	L	◆			
		External/Internal/Claims Auditing	H	L	L	◆			
		Fund Balance Management	H	L	L	◆			
<u>4</u>	<u>Revenue & Cash Management</u>	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	◆	T		
		Collection & Posting of Receipts	H	L	L	◆			
		Cash Management	H	L	L	◆			
		Investment Management	H	L	L	◆			
		Petty Cash	L	L	L	◆			
		Bank Reconciliations	H	L	L	◆			
<u>5</u>	<u>Grants</u>	General Processing/Monitoring	H	L	L			X	
		Grant Application	M	L	L			X	
		Allowable Costs	H	L	L			X	
		Cash Management	M	L	L			X	
		Reporting and Monitoring	H	L	L			X	
		Compliance	H	L	L			X	
<u>6</u>	<u>Payroll</u>	Payroll Disbursements	H	L	L	◆			
		Payroll Accounting & Reporting	H	L	L	◆			
		Payroll Tax Filings	H	L	L	◆			
		Payroll Reconciliation	H	L	L	◆			
<u>7</u>	<u>Personnel</u>	Employment Requisition/Hiring	H	L	L	◆			
		Personnel Evaluation	H	L	L	◆	T		
		Termination	H	L	L	◆			
		Employee Attendance	H	L	L	◆			
<u>8</u>	<u>Benefits</u>	Eligibility	H	L	L	◆			
		Benefit Calculations	H	M	L	◆			
		Patient Protection and Affordable Care Act	H	N/A	N/A	◆			
		Oversight of Third Party Administrators	H	L	L	◆			

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Risk Rating and Internal Audit Plan

✓ = Internal Audit Services Provided
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			RISK			YEAR OF SERVICE				
	Business Process	Business Process Categories	Inherent		Control		Prior Years	13-14	14-15	Subsequent Years
					11-12	12-13				
9	<u>Purchasing & Related Expenditures</u>	PO System	H		L	L	◆			
		Payments Outside PO System	H		L	L	◆			
		Purchasing Process	H		L	L	◆			
		Payment Processing	H		L	L	◆	T		
		Travel and Conferences	H		L	L	◆			
		Credit Cards	H		L	L	◆			
10	<u>Facilities/Capital Projects</u>	Facilities Maintenance	H		L	L				X
		Construction Planning	M		L	L				X
		Construction Monitoring	M		L	L				X
11	<u>Fixed Assets</u>	Acquisition and Disposal	H		L	L	◆			
		Capitalization Policy	L		L	L	◆			
		Inventory	H		L	L	◆	T		
12	<u>Food Service</u>	Federal and State Aid Reimbursement	H		L	L	◆			
		Sales Cycle and System	M		M	M	◆	T		
		Inventory and Purchasing	M		L	L	◆	T		
		Eligibility Verification	M		L	L	◆			
13	<u>Extraclassroom Activity Fund</u>	General Controls	H		L	L	◆	T		
		Cash and Cash Receipts	H		L	L	◆			
		Expenditures	M		L	L	◆			
14	<u>Information Systems</u>	Governance Security	H		L	L	◆			
		Network Security	H		M	M	◆			
		Financial Application Security	H		M	L	◆			
		Other Application Security	H		M	L	◆			
		Disaster Recovery	H		M	M	◆	T		
15	<u>Pupil Personnel Services</u>	Budgeting and Planning	H		L	L	◆			
		STAC Aid Reimbursement	H		M	L	◆			
		Medicaid Reimbursement	H		M	L	◆			
		RFP and Contracts	H		L	L	◆			
16	<u>Transportation</u>	Fleet Inventory and Maintenance	H		L	L		X		
		Bus Routing and Planning	H		L	L		X		
		Labor and Supervision	H		L	L		X		
		Federal and State Aid Reimbursement	H		L	L		X		
17	<u>Safety & Security</u>	Plan Development and Strategy	H		N/A	L				X
		Building Access and Security System	H		N/A	L				X
		Compliance and Incident Reporting	H		N/A	L				X
		Safety and Security Monitoring	H		N/A	L				X

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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

Fixed Assets

1. The Business Office monitors fixed asset acquisitions and provides building level employees with asset tags to affix to the new fixed assets under their purview.
 - *The District should consider designating a single employee to affix all asset tags to the newly purchased fixed assets immediately upon receipt. Centralizing the function of fixed asset tagging will ensure that fixed assets are tagged consistently and reduce the District's risk of misappropriation.*

Information Systems

2. The District has granted remote access to its computer system to various administrative, instructional, and clerical staff District-wide, as necessary. Although the IT Department maintains a listing of employees with remote access to the District's computer system, there is no formal, documented oversight of the remote access activity.
 - *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.*
3. The Board of Education formally adopted the District's Disaster Recovery Plan at its reorganization meeting for the 2013/2014 fiscal year.
 - *Nawrocki Smith should perform follow-up testing in 2013/2014 to verify the completeness of the District's Disaster Recovery Plan and whether or not it addresses such topics such as prioritized contact listings, identification and backup of mission-critical systems, alternative communication options and physical locations, impacts of a disruption of continual processes or services, and continuation of mandated reporting.*

It should be noted that there were no observations or recommendations within the areas of bank reconciliations, budget transfers, journal entries, cash receipts, payroll disbursements, benefits, STAC and Medicaid, which were also reviewed during the 2012-2013 school year.

Exhibits

- | | |
|--------------------------|------------------------------------------|
| <i>Exhibit I</i> | History of Internal Audit Reports Issued |
| <i>Exhibit II</i> | Internal Audit Plan for 2013/2014 |

Jericho Union Free School District
Internal Audit - Nawrocki Smith
History of Internal Audit Reports Issued
July 2006 through June 2013

<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>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	-	-	-	-	✓	-	-
<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	-	-	-	-	-	-	✓
<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

2013/2014 INTERNAL AUDIT PLAN

Cycle Review

Status

- Transportation

Planned for Nov-13

Key Control Testing

Status

- Vending Machines
- Personnel Evaluations
- Cash Disbursements
- Fixed Asset Acquisition
- Food Service – Sales Cycle
- Food Service – Inventory
- Extraclassroom – General Controls
- Disaster Recovery

Planned for Dec-13
Planned for Dec-13
Planned for Jan-14
Planned for Jan-14
Planned for Feb-14
Planned for Feb-14
Planned for Mar-14
Planned for Mar-14

Additional Internal Audit Services

Status

- Issue Quarterly Status Reports
- Annual Risk Assessment Update as of June 2014
- Payroll Payout Audit
- Other Internal Audit Services at the Request of the District

Quarterly
Planned for Jun-14
TBD
As Requested

Tentative On-Site Internal Audit Schedule

September 10 th	February 11 th
October 8 th	March 11 th
November 12 th	April 8 th
December 10 th	May 13 th
January 14 th	June 10 th