



Horseheads Central School District

Encl. #10.1
May 6, 2010

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TO: Audit Committee
Board of Education

FROM: Michael Stuart

DATE: May 6, 2010

RE: 2009-10 District Internal Audit Assessment Update Report Corrective
Action Plan

I. Low Residual Risk

1. Facilities Maintenance/Construction
2. Student Services/Data

The District will continue its present practice to maintain or reduce its residual risk in these areas.

II. Moderate Residual Risk

1. Revenue and Cash Management
2. Purchasing/Expenditures
3. Payroll/Personnel
4. Extra-Classroom Activities Fund
The District will provide a "Best Practices Manual" to all budget directors. A "Extra Classroom Manual", SED Pamphlet \$3, and training will be provided to all advisors and student treasurers. The District will have a new payroll schedule in place for 2010-11 to eliminate any pre-paying of staff. The District will do a payroll audit in May 2010.
5. Governance/Control Environment – Information Technology
The District will stress "Access Rights" in our Employee Exit as well as work with the Central Business Office to have a bi-weekly review of necessary staff access rights to the financial software program.
6. Accounting/Reporting
The District will work with the external auditor to reduce and resolve accounting issues.
7. Assets/Inventory
The District will have a physical inventory done in April 2010. The results will be integrated with our new Wincap software to maintain up-to-date data and accurate records of District property.

Quality Education for All

The Mission of the Horseheads Central School Community is to provide a quality education for all within a nurturing environment which promotes excellence, growth, and a sense of civic responsibility.

**Board of Education
Horseheads Central School District
One Raider Lane
Horseheads, NY 14858**



**2009 – 2010
Internal Audit Risk Assessment
Update Report**

March 2010

Executive Summary

Internal Audit performed the 2009-2010 risk assessment update for the Horseheads Central School District, on behalf of the District's Board of Education and to assist them in compliance with the NYS Five Point Plan on School District Accountability legislation and Commissioner's Regulations 170.12.

A risk assessment update includes a review of a District's operations, including but not limited to, a review of financial policies and procedures and the testing and evaluation of the district's internal controls.

Internal Audit separated the District's operations into nine auditable/functional units and assigned a risk rating of low, moderate, or considerable to each unit through various testing methods such as questionnaires and discussions with district staff, sample testing of key controls, and walk-throughs.

Internal Audit concludes that the following auditable/functional units presented an elevated risk level (generally >5) to the District's operations as a result from the updated risk assessment and recommends the detailed testing of one of these areas to be completed for the 2009-2010 school year for the Horseheads Central School District.

- Assets and Inventory
- Purchasing and Expenditures
- Payroll and Personnel
- Governance and the Control Environment – Information Technology
- Extraclassroom Activity Fund

Audit Scope, Objective and Methodology

Scope

An annual risk assessment is required by the NYS Five Point Plan on School District Accountability legislation and Commissioner's Regulations 170.12.

The risk assessment update for the Horseheads Central School District was conducted during late September 2009.

Internal Audit is a department within Tompkins-Seneca-Tioga BOCES and is supervised by the Board of Education for the Horseheads Central School District under a cooperative services agreement. The findings and conclusions in this report are the responsibility of the Board and the Internal Audit Department.

Objective

To identify factors or conditions that threaten the achievement of a district's objectives. It involves identifying significant risks to the effectiveness and efficiency of operations, to the reliability of financial reporting, and compliance with policies, procedures, applicable laws and regulations.

Methodology

Internal Audit is governed by adherence to applicable AICPA *Generally Accepted Auditing Standards* and The Institute of Internal Auditors' *Code of Ethics*. The Institute's *International Standards for the Professional Practice of Internal Auditing* (Standards) constitutes the operating procedures for the department. The Institute of Internal Auditors' *Practice Advisories* were adhered to as applicable. In addition, the Internal Audit department complies with applicable regulations promulgated by the State Commissioner of Education and the school district's policies and procedures.

Per New York Standards Internal Audit is required to develop a risk assessment of a district's operations, including but not limited to, a review of financial policies and procedures and the testing and evaluation of the district's internal controls, and an annual review and update of such risk assessment.

A risk assessment update shall not only include a current year residual risk determination, but also a follow-up on any previous Internal Audit exceptions, a follow-up on any corrective action plans and any external audit exceptions (financial statement, SED, OSC, etc.).

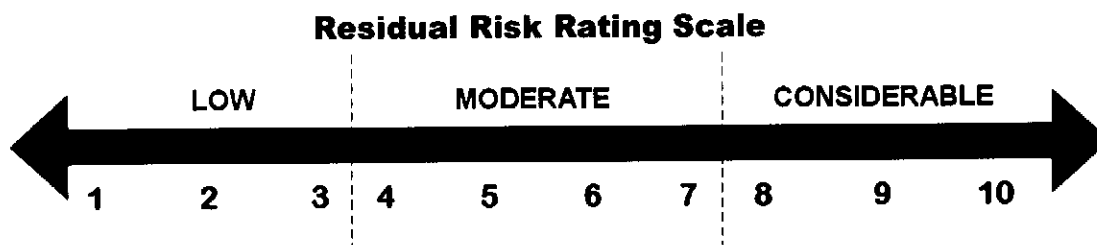
There are three categories of risk:

- **Inherent Risk:** The nature of some activities or assets makes them a greater risk than others. Some characteristics that generally increase inherent risk are opportunity, new activities, complexity, changes in operating environment, changes in personnel, and rapid growth. Inherent risk is a tool in determining the susceptibility of an entity, unit, or account to fraud, waste, or abuse assuming there were no related internal controls.
- **Control Risk:** The risk that material errors or fraud are not prevented or detected by the internal control system.
- **Residual Risk:** Remaining and assigned risk level calculated after evaluating control and inherent risk.

The assigned residual risk rating, low, moderate, or considerable, is calculated after considering inherent and control risk. To establish a control risk rating, internal audit uses various testing methods such as questionnaires and discussions with district staff, sample testing of key controls, and walk throughs.

Not all risks are equal. Some are more likely than others to occur, and some will have a greater impact than others if they occur. Once risks are identified, their probability and significance must be assessed. Upon identifying and assessing risk, the District must decide how to deal with it.

Based on a cost/benefit analysis, in some cases, the decision may be to control it; in others, it may be to accept it. Residual Risk ratings are not only categorized as *Low*, *Moderate*, or *Considerable*, but also with a number rating. The number rating is based on various factors such as the severity of internal control recommendations, materiality, probability, and significance. In addition, the residual risk can be affected by recent audit reports or findings by other federal, state, or independent auditors. See the graphic below for the Residual Risk Rating Scale.



Results and Recommendations

The NYS Education Department has outlined twenty-four different areas to be assessed and audited by internal audit. Internal Audit has merged and re-categorized all twenty-four areas into the following nine auditable/functional units:

- Revenue and Cash Management
- Purchasing and Expenditures
- Payroll and Personnel
- Extraclassroom Activity Fund
- Governance
- Accounting and Reporting
- Assets and Inventory
- Facilities Maint. and Construction
- Student Services and Data

Using the methodology explained above, internal audit has determined and assigned a residual risk rating to all nine auditable/functional areas for the Horseheads Central School District. The following three sections of the report specify those ratings in ascending order from *Low* to *Considerable*. In accordance with the NYS Five Point Plan, Internal Audit is required to recommend changes for strengthening controls and reducing identified risks where possible, and to specify time frames for implementation of such recommendations. The recommendations are provided to assist the district in managing and reducing risk. It should be noted that the

enhancements recommended are not the only contributing factors to the ratings of *Moderate* or *Considerable* risk. As explained above, many areas are inherently riskier than others, regardless of the internal control structure.

Low Residual Risk

The functional units determined and assigned *Low* residual risk ratings for the Horseheads Central School District are as follows:

	Fiscal Year	Inherent Risk	Control Risk	Residual Risk
1. Facilities Maintenance and Const.	08-09	Low	Moderate	Low-3
	09-10	Low	Moderate	Low-3
2. Student Services and Data	08-09	Moderate	Low	Low-3
	09-10	Moderate	Low	Low-3

Moderate Residual Risk

The following function(s) have *Moderate* residual risk ratings. There are no associated recommendations for improvement to internal controls for these area(s). If there are verbal recommendations, minor items noted throughout the risk assessment that do not warrant a written recommendation, or unresolved findings from any previous audit reports, this may lead to a *Moderate* residual risk rating without any associated written recommendations below.

	Fiscal Year	Inherent Risk	Control Risk	Residual Risk
3. Revenue and Cash Management	08-09	Moderate	Moderate	Moderate-4
	09-10	Moderate	Moderate	Moderate-4

The following function(s) have *Moderate* residual risk ratings, and associated recommendations for improvement to internal controls for these area(s).

	Fiscal Year	Inherent Risk	Control Risk	Residual Risk
4. Purchasing and Expenditures	08-09	Considerable	Considerable	Considerable-8
	09-10	Considerable	Moderate	Moderate-7

As discussed with the Purchasing Agent, the District should continue its efforts to monitor purchases to ensure staff are adhering to winning bids and communicating inferior quality to vendors with the oversight of the Purchasing Agent. Where possible, samples should be obtained with bids so staff may evaluate for quality prior to awarding bids.

	Fiscal Year	Inherent Risk	Control Risk	Residual Risk
5. Payroll and Personnel	08-09	Considerable	Considerable	Moderate-7
	09-10	Considerable	Moderate	Moderate-6

The District should consider performing periodic payroll payout audits. This would entail distributing each paycheck or remittance advice (for direct deposits) to the appropriate individual, and the employee would sign for the paycheck or pay stub when he or she receives it, and also provide identification to verify his or her identity. This process validates the existence of all employees receiving pay.

The District is currently working to determine a new pay schedule in order to minimize paying employees prior to them rendering services to the District. As stated in the prior year's Risk Assessment Update, EL §3015 expressly prohibits a board from paying teachers in advance of service. 8 NYCRR Section 170.2(k) requires a Board not pay any obligation until materials or services have been rendered, and NYS Constitution Article VIII Section 1 prohibits the loan of money or property to any individual.

	Fiscal Year	Inherent Risk	Control Risk	Residual Risk
6. Extraclassroom Activities Fund	08-09	Considerable	Moderate	Moderate-7
	09-10	Considerable	Moderate	Moderate-7

Internal Audit discussed the 6/30/09 external audit of Extraclassroom Activities with the Business Administrator and High School Central Treasurer. The External Auditor's recommendations should be considered, and implemented where practical, and beneficial.

	Fiscal Year	Inherent Risk	Control Risk	Residual Risk
7. Governance and Control Environment – Information Technology	08-09	Moderate	Moderate	Moderate-6
	09-10	Moderate	Moderate	Moderate-6

Similar to what was noted in the previous year's Risk Assessment Update, access to financial software should be limited to "as needed" to perform properly segregated job functions. A thorough review of user permissions should be performed regularly. Individuals that are no longer employed by the District, or are employed in a different capacity should have their user profiles adjusted accordingly, and in a timely fashion.

	Fiscal Year	Inherent Risk	Control Risk	Residual Risk
8. Accounting and Reporting	08-09	Moderate	Low	Low-3
	09-10	Moderate	Moderate	Moderate-5

The District's external auditor identified various material weaknesses in their 6/30/09 independent audit of the financial statements. The District should work with their external auditor to resolve the accounting and reporting issues identified in order to reduce the number of audit adjustments in the 6/30/10 independent audit.

	Fiscal Year	Inherent Risk	Control Risk	Residual Risk
9. Assets and Inventory	08-09	Moderate	Moderate	Moderate-6
	09-10	Moderate	Moderate	Moderate-6

The District should continue to communicate to all staff the importance of reporting asset information to the Business Office so tags can be affixed as soon as possible after receipt of the asset.

Previous Audits and Corrective Action Plans

As part of the annual risk assessment update, Internal Audit is required to follow-up on any prior year audits and corrective action plans to determine if any findings are unresolved, as well as the implementation status of any corrective action plans. All items noted were already in the process of being addressed.

Concluding Remarks

In order to assist the District in mitigating the risk of fraud, waste or abuse and to comply with the NYS Five Point Plan, Internal Audit recommends the detailed testing of one of the following areas for the 2009-2010 school year for the Horseheads Central School District:

- Assets and Inventory
- Purchasing and Expenditures
- Payroll and Personnel
- Governance and the Control Environment – Information Technology
- Extraclassroom Activity Fund