

**Board of Education  
Horseheads Central School District  
One Raider Lane  
Horseheads, NY 14845**



**2010-2011  
Internal Audit Risk Assessment  
Update Report**

**March 2011**

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## **Executive Summary**

Internal Audit performed the 2010-2011 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 2010-2011 school year for the Horseheads Central School District.

- Accounting and Reporting
- Governance and the Control Environment
- Student Services and Data – Medicaid
- Assets and Inventory
- Extraclassroom Activities 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 February 2011.

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.).

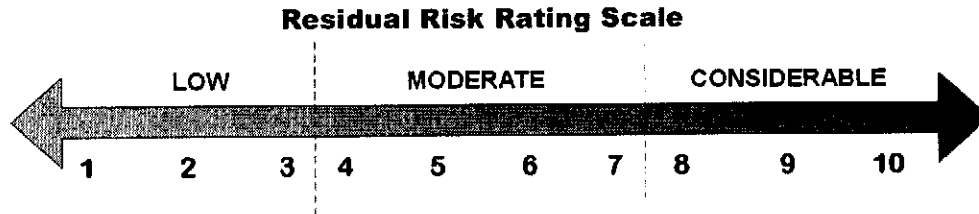
There are three categories of risk:

- **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.	09-10	Low	Moderate	Low-3
	10-11	Low	Moderate	Low-3

Moderate Residual Risk

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
2. Assets and Inventory	09-10	Moderate	Moderate	Moderate-6
	10-11	Moderate	Moderate	Moderate-6

The District should continue with the implementation of the Fixed Asset software that was purchased. Additions and deletions should be incorporated in a timely manner into the new software in order to maintain the most current database of information.

	Fiscal Year	Inherent Risk	Control Risk	Residual Risk
3. Accounting and Reporting	09-10	Moderate	Moderate	Moderate-5
	10-11	Moderate	Moderate	Moderate-7

The District's Business Official retired during the 2010-2011 fiscal year and the Superintendent has assumed the title. In addition the District implemented new financial accounting software as of 7/1/10. These significant changes increase the inherent risk of the Accounting and Reporting function. The District is working with the GST BOCES Central Business Office and their external auditors for some additional accounting support in this time of change.

	Fiscal Year	Inherent Risk	Control Risk	Residual Risk
4. Revenue and Cash Management	09-10	Moderate	Moderate	Moderate-4
	10-11	Moderate	Moderate	Moderate-4

*Cash collection in the high school* - Duplicate receipts are being issued when cash is collected for lost books, etc. but pre-numbered triplicate receipts should be issued so that one copy can be turned in to the District Treasurer for substantiation and tracking purposes.

	Fiscal Year	Inherent Risk	Control Risk	Residual Risk
5. Student Services and Data	09-10	Moderate	Low	Low-3
	10-11	Moderate	Low	Moderate-5

*Medicaid* - There have been significant changes and increases recently in the supporting documentation requirements for claims made in reimbursement for Medicaid eligible services. This results in an increase in inherent risk for the Student Services and Data function. In order to remain compliant with these changes, and reduce the risk of denied or reclaimed Medicaid reimbursements, the District should continue to support the individuals responsible by sending them to trainings, and supporting the increased documentation demands.

	Fiscal Year	Inherent Risk	Control Risk	Residual Risk
6. Purchasing and Expenditures	09-10	Considerable	Moderate	Moderate-7
	10-11	Considerable	Moderate	Moderate-7

The District should ensure that consultants are paid under a defined Board approved contract which names the rate they are to be paid and also the exact duties to be performed. This includes consultants hired to support extracurricular activities, such as the marching band. Without this information, there is

no way to determine whether the individuals are doing what is expected of them, or if they are being paid what they should be.

	Fiscal Year	Inherent Risk	Control Risk	Residual Risk
7. Payroll and Personnel	09-10	Considerable	Moderate	Moderate-6
	10-11	<b>Considerable</b>	<b>Moderate</b>	<b>Moderate-6</b>

Payroll and Personnel continues to have a moderate residual risk level primarily due to the potential complexities involved with multiple collective bargaining agreements, the relative portion of the budget that payroll related expenses make up, and the complex IRS rules and regulations.

	Fiscal Year	Inherent Risk	Control Risk	Residual Risk
8. Extraclassroom Activities Fund	09-10	Considerable	Moderate	Moderate-7
	10-11	<b>Considerable</b>	<b>Moderate</b>	<b>Moderate-7</b>

Standardization of forms and bookkeeping software among the middle school, athletics and high school central treasurers is recommended. Currently deposit, and pay order forms differ, and there are at least two different bookkeeping software packages in use throughout the District. The Middle School and the athletic department should require student treasurers/advisors be present while the Central Treasurers count the funds at the point of deposit with the Central Treasurer in order to eliminate any risk of dispute over the amount. Lastly, Internal Audit recommends periodic, brief idea sharing meetings between the three central treasurers in order to learn from each others' best practices and challenges.

	Fiscal Year	Inherent Risk	Control Risk	Residual Risk
9. Governance and Control Environment	09-10	Moderate	Moderate	Moderate-6
	10-11	<b>Moderate</b>	<b>Moderate</b>	<b>Moderate-7</b>

The District has experienced a significant change in the management structure of the business office, and has also implemented new financial accounting software. These changes increase the inherent risk of the Governance and Control Environment function.

#### 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 have either been addressed above, or 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 2010-2011 school year for the Horseheads Central School District:

- Accounting and Reporting
- Governance and the Control Environment
- Student Services and Data – Medicaid
- Assets and Inventory
- Extraclassroom Activities Fund