

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



**2011-2012
Internal Audit Risk Assessment
Update Report**

March 2012

Executive Summary

Internal Audit performed the 2011-2012 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 2011-2012 school year for the Horseheads Central School District.

- Purchasing and Accounts Payable
- Assets and Inventory
- Payroll and Personnel

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 2012.

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 which 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

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

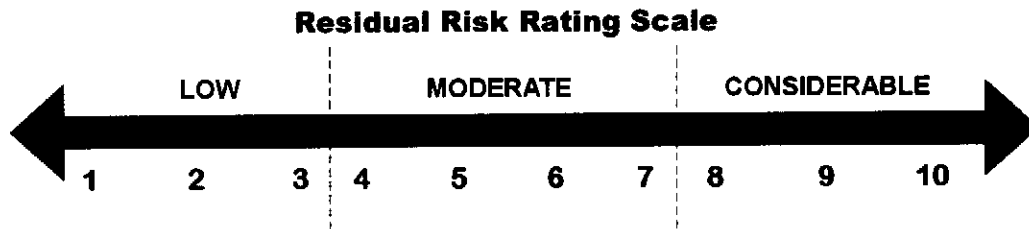
in operating environment, changes in personnel, and rapid growth. Inherent risk is a tool in determining the susceptibility of an entity, unit, or account to fraud, waste, or abuse assuming there were no related internal controls.

- **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.

	Fiscal Year	Inherent Risk	Control Risk	Residual Risk
1. Facilities Maintenance and Const.	10-11	Low	Moderate	Low-3
	11-12	Low	Moderate	Low-3

	Fiscal Year	Inherent Risk	Control Risk	Residual Risk
2. Governance and Control Environment	10-11	Moderate	Moderate	Moderate-7
	11-12	Moderate	Moderate	Moderate-6

The mounting pressures of declining state aid and limitations on the ability to close the gap by raising taxes contribute to the inherent risk of the budgeting portion of Governance and the Control Environment. The District should continue a conscientious approach to cautious budgeting, revenue projections, and long term reserve planning.

	Fiscal Year	Inherent Risk	Control Risk	Residual Risk
3. Revenue and Cash Management	10-11	Moderate	Moderate	Moderate-4
	11-12	Moderate	Low	Low-3

Internal Audit noted proper segregation of duties in the area of Revenue and Cash Management regarding receiving, depositing, and recording revenues, and reconciliation of accounting records to bank account balances.

	Fiscal Year	Inherent Risk	Control Risk	Residual Risk
4. Assets and Inventory	10-11	Moderate	Moderate	Moderate-6
	11-12	Moderate	Moderate	Moderate-6

The District is working toward completing implementation of the recommendations from the external auditor regarding their fixed assets and associated records.

	Fiscal Year	Inherent Risk	Control Risk	Residual Risk
5. Accounting and Reporting	10-11	Moderate	Moderate	Moderate-7
	11-12	Moderate	Moderate	Moderate-6

Two key business office/accounting individuals will be out on leave through budgeting, and the year end period, which means that alternate individuals will fill in during that time. Although this change affects the inherent risk of the Accounting and Reporting function, the absences will be temporary and there are individuals identified to fill in during the leaves.

	Fiscal Year	Inherent Risk	Control Risk	Residual Risk
6. Student Services and Data	10-11	Moderate	Low	Moderate-5
	11-12	Moderate	Moderate	Moderate-5

Over the past two years, there have been significant changes and increases in the supporting documentation requirements for claims made in reimbursement for Medicaid eligible services. This results in slightly elevated inherent risk for the Student Services and Data function as it relates to Medicaid. In order to ensure compliance with these requirements, and reduce the risk of reclaimed Medicaid reimbursements in the event of an Office of the Medicaid Inspector General (OMIG) audit, the District should collect all session notes centrally and review them for inclusion of all the necessary elements. In addition, the District should consider requesting providers take electronic sessions notes in order to more easily and efficiently review and maintain the session notes for Medicaid documentation purposes.

	Fiscal Year	Inherent Risk	Control Risk	Residual Risk
7. Purchasing and Expenditures	10-11	Considerable	Moderate	Moderate-7
	11-12	Considerable	Moderate	Moderate-6

Internal Audit tested a small sample of accounts payable payments made and the supporting documentation. Documentation appeared to be in order. The District should consider whether there is an opportunity for cost savings by requesting quotes for purchases of items obtained on open purchase orders, such as tires. Although each individual purchase may not technically meet the policy requirements for obtaining quotes, Internal Audit noted an individual check (multiple individual purchases on an open P.O.) for more than \$10,000 paid to one vendor without comparative pricing.

	Fiscal Year	Inherent Risk	Control Risk	Residual Risk
8. Payroll and Personnel	10-11	Considerable	Moderate	Moderate-6
	11-12	Considerable	Moderate	Moderate-6

New athletic event scorekeepers, timers, and chaperones should be processed by Human Resources (HR) for consistency, and to ensure proper handling of information. This includes background checks (when required), Form I-9 Verification of Eligibility for Employment, income tax withholding forms (W-4, IT-2104), and notification of eligibility to join the New York State Retirement System. In addition, HR should create these new employees, and CBO Payroll should input the wage/salary information in the payroll module of the accounting software to ensure proper segregation of duties.

Payroll and Personnel continues to have a moderate residual risk level also due to the potential complexities involved with collective bargaining, 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
9. Extraclassroom Activities Fund	10-11	Considerable	Moderate	Moderate-7
	11-12	Considerable	Moderate	Moderate-7

The District has standardized the software used by the Central Treasurers for the accounting of Extraclassroom Activities Funds.

Internal Audit noted that there is a Sam's Club credit card in use by the Class of 2012 within the Extraclassroom Activities Fund which was not approved for use by the Board of Education. In at least two instances, the pay orders submitted to the Central Treasurer for payment of the credit card bills do not match the actual bill itself. Supporting documentation should agree to pay orders submitted to the Central Treasurer for payment. The District should ensure that only Board authorized credit cards are used and any other credit card accounts should be closed.

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 2011-2012 school year for the Horseheads Central School District:

- Purchasing and Accounts Payable
- Assets and Inventory
- Payroll and Personnel

Three Year Internal Audit Plan

Internal Audit performed the 2011-2012 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. The adoption of an audit plan is also a requirement of this legislation.

During the current year Risk Assessment Update, Internal Audit concluded that the following auditable/functional units presented an elevated risk level (generally >5) to the District's operations. Internal Audit recommends the detailed testing of these areas to be included in the District's **three year audit plan**.

Year 1: 2011-2012 Purchasing and Accounts Payable

Year 2: 2012-2013 Assets and Inventory

Year 3: 2013-2014 Payroll and Personnel

**** IMPORTANT ****

The areas identified above **can be modified** by the Board of Education **at any time**, and the audit plan will be revisited at the conclusion of future Risk Assessment Updates in 2012-2013 and 2013-2014 to determine whether the Board wishes to update the original audit plan.

Please indicate whether for the current year the Board would like to select the audit plan as stated above, or whether alternate selections are being made:

Three Year Audit Plan as stated above

- OR -

Alternate selections as stated below (please fill in the blanks below) :

Year 1: 2011-2012 _____

Year 2: 2012-2013 _____

Year 3: 2013-2014 _____

District Clerk – Please complete and sign the form based on the Board's decision and accept it as an addendum to the Risk Assessment Update report, then make a copy for Internal Audit's files. Thank you!

District Clerk Signature

Board Acceptance Date