

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



**2012-2013
Internal Audit Risk Assessment
Update Report**

January 2013

Executive Summary

Internal Audit performed the 2012-2013 risk assessment update for the Horseheads Central School District, on behalf of the District's Board of Education 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.

Audit Recommendation

As a result of the updated risk assessment, Internal Audit recommends the detailed testing of **Assets and Inventory for 2012-2013** for the Horseheads Central School District.

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 October 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 recommendations 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

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.

Internal Audit relied on the accuracy and reliability of the information provided by District personnel. Internal Audit has not audited or examined the information in detail, and we express no assurance on it.

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.).

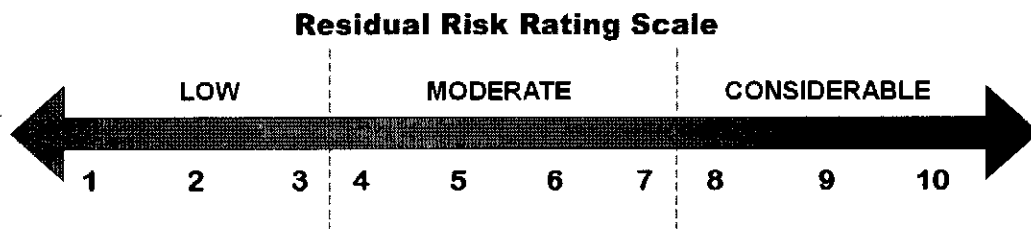
There are three categories of risk:

- **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 portion of the report explains those ratings. 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. Governance and Control Environment	11-12	Moderate	Moderate	Moderate-6	—
	12-13	Moderate	Moderate	Moderate-6	

The District has experienced change in Business Office leadership over the past couple of years. Most recently, the District began using the GST BOCES Central Business Office's School Business Executive service. These changes have a slight and temporary effect on the inherent risk of many areas throughout the Risk Assessment Update, including Governance and the Control Environment.

The tax cap and declining state and federal aid continue to pose both fiscal and educational challenges for the District, which contributes to the sustained level of inherent risk in this area.

	Fiscal Year	Inherent Risk	Control Risk	Residual Risk	
2. Facilities Maintenance and Const.	11-12	Low	Low	Low-3	—
	12-13	Low	Low	Low-3	

The District maintains a set of comprehensive Board policies governing significant items such as facilities planning, construction, buildings and grounds inspections, maintenance and security.

	Fiscal Year	Inherent Risk	Control Risk	Residual Risk	
3. Revenue and Cash Management	11-12	Moderate	Low	Low-3	—
	12-13	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.

The period of change in Business Office leadership slightly and temporarily affects the inherent risk of many functions throughout the District, including Revenue and Cash Management. See #1 above for further discussion. The increase in risk is slight, and not enough to warrant a numerical increase in residual risk.

	Fiscal Year	Inherent Risk	Control Risk	Residual Risk	
4. Assets and Inventory	11-12	Moderate	Moderate	Moderate-6	↓
	12-13	Moderate	Moderate	Moderate-5	

As of the date of fieldwork (October 2012), the District is in the process of updating their 2012-2013 inventory records for additions and disposals in the new tracking software.

The period of change in Business Office leadership slightly and temporarily affects the inherent risk of many functions throughout the District, including Assets and Inventory. See #1 above for further discussion. The increase in risk is slight, and not enough to warrant a numerical increase in residual risk.

	Fiscal Year	Inherent Risk	Control Risk	Residual Risk	
5. Accounting and Reporting	11-12	Moderate	Moderate	Moderate-6	—
	12-13	Moderate	Moderate	Moderate-6	

The change in Business Office leadership slightly and temporarily affects the inherent risk of many functions throughout the District, including Accounting and Reporting, because many of the responsibilities of this function fall on the Business Official. See #1 above for further discussion. The increase in risk is slight, and not enough to warrant a numerical increase in residual risk.

	Fiscal Year	Inherent Risk	Control Risk	Residual Risk	
6. Student Services and Data	11-12	Moderate	Moderate	Moderate-5	—
	12-13	Moderate	Moderate	Moderate-5	

Internal Audit tested a small sample of free and reduced price lunch applications in order to determine whether the applications had been properly calculated for paid/reduced/free status. Internal Audit noted that the sample applications tested were all calculated correctly.

Internal Audit noted 18 temporary student identification numbers within the point of sale software at one school cafeteria. These temporary ID's, if not deleted timely, could affect meal status totals for reporting purposes or aid ratio calculations. Internal Audit recommends that cafeteria managers review student lists regularly and clean up any unnecessary temporary ID numbers.

7.	Purchasing and Expenditures	Fiscal Year	Inherent Risk	Control Risk	Residual Risk	—
		11-12	Considerable	Moderate	Moderate-6	
		12-13	Considerable	Moderate	Moderate-6	

Internal Audit tested a small sample of accounts payable payments and the supporting documentation. There was one purchase missing the claims auditor's approval. Based on the claims auditor's report covering the warrant in question, the items had been audited, but the approval stamp and initials were missed. Also, the District had some wood refinishing done and the cost of the work exceeded the amount of the original purchase order. The purchase order was increased by purchasing without documentation of the communication from the approving District administrator/employee. Increases to purchase orders should be substantiated by email or written communications from the District.

The period of change in Business Office leadership described in #1 above also slightly and temporarily affects the inherent risk of Purchasing and Accounts Payable. The increase in risk is slight, and not enough to warrant a numerical increase in residual risk.

8.	Payroll and Personnel	Fiscal Year	Inherent Risk	Control Risk	Residual Risk	↓
		11-12	Considerable	Moderate	Moderate-6	
		12-13	Considerable	Moderate	Moderate-5	

The District's Human Resource department is now handling all new employee paperwork, and inputting basic employee credentials into the payroll software. The Payroll department at the CBO then inputs payroll related items, maintaining proper segregation of duties.

9.	Extraclassroom Activities Fund	Fiscal Year	Inherent Risk	Control Risk	Residual Risk	—
		11-12	Considerable	Moderate	Moderate-7	
		12-13	Considerable	Moderate	Moderate-7	

At the time of fieldwork (October, 2012) Internal Audit noted that all of the District's Central Treasurers resigned in late August 2012, just before the school year started. New appointments had been recently made, but no training had yet occurred. The District's School Business Executive was temporarily performing the duties of all three of the Central Treasurers. The District scheduled training for the new treasurers to occur in early November 2012, at which time the new treasurers would take over. When there is turnover in key positions such as the Central treasurer, inherent risk slightly and temporarily increases. The increase in risk is slight, and not enough to warrant a numerical increase in residual risk.

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

As a result of the updated risk assessment, Internal Audit recommends the detailed testing of **Assets and Inventory for 2012-2013** for the Horseheads Central School District.