

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



**2013-2014
Internal Audit Risk Assessment
Update Report**

January 2014

Executive Summary

Internal Audit performed the 2013-2014 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 **Payroll and Personnel** for 2013-2014 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 November and December of 2013. A portion of the fieldwork was conducted at the Greater Southern Tier BOCES Central Business Office.

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	12-13	Moderate	Moderate	Moderate-6	↓
	13-14	Moderate	Moderate	Moderate-4	

In the prior year the District begun using the Greater Southern Tier BOCES School Business Official (SBO) service and had a new individual in that position, also transitioning some responsibilities from the Superintendent to the SBO. Risk associated with this change has subsided. This slight increase in risk that affected other areas of the Risk Assessment has also subsided, and is reflected in slightly lower residual ratings below.

Information Technology – The District should review its financial accounting software, and other programs which include confidential information, to ensure only necessary user accounts are created, and inactive/retired employee usernames and accounts are deleted timely.

	Fiscal Year	Inherent Risk	Control Risk	Residual Risk	
2. Facilities Maintenance & Const.	12-13	Low	Low	Low-3	—
	13-14	Low	Low	Low-3	

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

The District is also currently studying facility utilization, with the help of the Board Planning and Development Committee, outside consultants, and community members.

	Fiscal Year	Inherent Risk	Control Risk	Residual Risk	
3. Revenue & Cash Management	12-13	Moderate	Low	Low-3	—
	13-14	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	12-13	Low	Moderate	Moderate-5	—
	13-14	Low	Moderate	Moderate-5	

The District is in the process of implementing the recommendations from the most recent Internal Audit of Assets and Inventory conducted in 2012-2013. In addition, the data from the tracking system for IT assets is being integrated into the main assets and inventory tracking system which is linked to the District's accounting software. This is a positive control, and should also assist from an efficiency standpoint when searching for IT inventory.

	Fiscal Year	Inherent Risk	Control Risk	Residual Risk	
5. Accounting and Reporting	12-13	Moderate	Moderate	Moderate-6	↓
	13-14	Moderate	Moderate	Moderate-5	

The District utilizes the GST BOCES CBO for their School Business Official, and some Accounting functions. This assists them in achieving proper segregation of key accounting duties.

	Fiscal Year	Inherent Risk	Control Risk	Residual Risk	
6. Student Services and Data	12-13	Moderate	Moderate	Moderate-5	—
	13-14	Moderate	Moderate	Moderate-5	

Food Service - 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 1 in 14 applications tested, was calculated incorrectly. Per the District Food Service Manager, the applications are usually reviewed by her, but had not been reviewed yet in the 2013-2014 school year. The District should ensure that this secondary review of applications occurs.

	Fiscal Year	Inherent Risk	Control Risk	Residual Risk	
7. Purchasing and Expenditures	12-13	Considerable	Moderate	Moderate-6	—
	13-14	Considerable	Moderate	Moderate-6	

Internal Audit tested a small sample of completed purchases, reviewing the accounts payable documentation, noting documentation appeared to be in order, with the exception of one confirming purchase order. This means that the purchase occurred prior to the issuance and approval of the purchase order by the Purchasing Agent. The purchase was for repairs to kitchen equipment, and although a purchase order should have been obtained ahead of time, repairs are one of the few situations where a slight deviation from normal purchasing procedure is justifiable.

8.	Payroll and Personnel	Fiscal Year	Inherent Risk	Control Risk	Residual Risk	—
		12-13	Considerable	Moderate	Moderate-5	
		13-14	Considerable	Moderate	Moderate-5	

The District should ensure that no signatures stamps are used to approve payroll or personnel related items. Approvals should be indicated by the supervisor responsible on items such as timesheets, and pay related items.

9.	Extraclassroom Activities Fund	Fiscal Year	Inherent Risk	Control Risk	Residual Risk	—
		12-13	Considerable	Moderate	Moderate-7	
		13-14	Considerable	Moderate	Moderate-7	

Internal Audit noted two payments made from the basketball club that did not include approvals from a student treasurer. There were also two deposits noted which lacked sufficient detail. One of the deposits was for the homecoming dance, and the other was for "fundraising" done by the cheerleading club. Deposits should include details such as beginning and ending ticket numbers, number of tickets sold, unit price, total collected, etc.

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 **Payroll and Personnel** for 2013-2014 for the Horseheads Central School District