

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



**2014-2015
Internal Audit Risk Assessment
Update Report**

February 2015

Executive Summary

Internal Audit performed the 2014-2015 risk assessment update for the Horsehead 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 the following auditable/functional units presented an elevated risk level (generally >5) to the District's operations as a result of the updated risk assessment. Internal Audit recommends the detailed testing of Medicaid for the 2014-2015 school year.

- Purchasing and Expenditures
- Payroll and Personnel
- Extraclassroom Activities
- Accounting and Reporting

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 Horsehead Central School District was conducted during January 2015.

The Horseheads Central School District has entered into a cooperative services agreement with the Greater Southern Tier BOCES to perform some of the District's financial operations. Therefore, a portion of the risk assessment's fieldwork was performed at the Central Business Office (CBO) located in Horseheads, NY.

Internal Audit is a department within Tompkins-Seneca-Tioga BOCES and is supervised by the Board of Education for the Horsehead 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 threatens the achievement of the 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 complies with applicable regulations promulgated by the State Commissioner of Education and the 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 Activities
- Governance
- Accounting and Reporting
- Assets and Inventory
- Facilities Maintenance 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 Horsehead 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 following function(s) have a *Low* residual risk rating.

	Fiscal Year	Inherent Risk	Control Risk	Residual Risk
Facilities Maint. and Construction	13-14	Low	Low	Low – 3
	14-15	Low	Low	Low – 3

	Fiscal Year	Inherent Risk	Control Risk	Residual Risk
Revenue and Cash Management	13-14	Moderate	Low	Low – 3
	14-15	Moderate	Low	Low – 3

Moderate Residual Risk

The following function(s) have *Moderate* residual risk rating. If there are verbal recommendations regarding controls, very 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.

	Fiscal Year	Inherent Risk	Control Risk	Residual Risk
Assets and Inventory	13-14	Low	Moderate	Moderate – 5
	14-15	Low	Moderate	Moderate – 5

	Fiscal Year	Inherent Risk	Control Risk	Residual Risk
Accounting and Reporting	13-14	Moderate	Moderate	Moderate – 5
	14-15	Moderate	Moderate	Moderate – 6

1. Medicaid Prescriptions – A “Written Order of Medical Necessity” (prescription) is required to be entered in IEP Direct in order to bill Medicaid for skilled nursing, speech, occupational, and physical therapy services. Internal Audit noted a prescription was not entered in IEP Direct for 2 of 12 student files tested. Internal Audit recommends District personnel review student files to determine files missing parent consents or prescriptions. Internal Audit recommends the files be reviewed twice a month, and missing documentation be obtained and entered into IEP Direct in order to bill Medicaid for services.

2. Therapist Session Notes – Therapist session notes are required to be entered into IEP Direct for Medicaid billings to be reimbursed. Internal Audit noted occupational therapy session notes are not being submitted timely for Medicaid billing by a therapist. Session notes for October, November, and December 2014 have not been submitted for billing as of January 2015 for 2 of 12 student files tested. Internal Audit recommends therapist enter session notes in IEP Direct within 10 days of service to ensure billing information is submitted, billed, and payment is received timely by the District.

3. Medicaid Billings - Internal Audit noted Medicaid billings are not being submitted timely. No billings have been submitted for November 2014 services as of January 2015 for 2 of 12 student files tested. Internal Audit recommends District personnel review billing reports and / or student files to determine why billings are not being submitted, make the necessary corrections, and submit the billings. Internal Audit recommends the billing reports and / or student files be reviewed twice a month.

	Fiscal Year	Inherent Risk	Control Risk	Residual Risk
Student Services and Data	13-14	Moderate	Moderate	Moderate – 5
	14-15	Moderate	Moderate	Moderate – 5

	Fiscal Year	Inherent Risk	Control Risk	Residual Risk
Extracurricular Activities	13-14	Considerable	Moderate	Moderate – 7
	14-15	Considerable	Moderate	Moderate – 7

1. Untimely Deposit - Internal Audit noted 1 of 5 deposits tested were not made timely. Funds received by Extracurricular Activities were not deposited in the bank for 7 school days. The District should continue to communicate the importance of following proper cash receipts protocol to all faculty, staff, and student officers. Internal Audit recommends all cash and checks are deposited within 3 business days of receipt.

2. Officers and Signature Sheets – Per the State Education Department Finance Pamphlet 2 “The Safeguarding, Accounting, and Auditing of Extracurricular Activity Funds”, each club shall have a president, treasurer, and secretary. Internal Audit noted some clubs did not submit officer signature sheets to the central treasurer. Internal Audit recommends all clubs elect the proper officers and provide the proper signatures to the central treasurer. Internal Audit was also unable to determine if deposits and disbursements were properly authorized. Clubs should be prohibited from conducting deposits or disbursements with the central treasurer until the proper signature sheets are on file.

3. Cash Receipts Documentation – All cash receipts documentation should include the advisor’s and central treasurer’s signature. Internal Audit noted 2 of 5 deposits tested were missing a signature. The District should continue to communicate the importance of following proper cash receipts protocol to all faculty, staff, and student officers.

4. Inactive Clubs With Account Balances - During testing, Internal Audit noted 6 inactive clubs with account balances totaling \$13,816. Clubs without officers and financial activity for two consecutive years should be closed, and the funds allocated in accordance with District policy. Internal Audit recommends the Varsity Club and the Band Special Project be closed due to inactivity.

	Fiscal Year	Inherent Risk	Control Risk	Residual Risk
Payroll & Personnel	13-14	Considerable	Moderate	Moderate – 5
	14-15	Considerable	Moderate	Moderate – 6

1. Fingerprint Clearances - Fingerprints for a new hire were submitted to NYS via GST BOCES. However, the District did not verify the fingerprint / background check cleared with NYS before the new employee started working for the District in 1 of 10 employee files tested. The fingerprint clearance for the employee was checked during the audit and did clear. The 2013-14 Payroll and Personnel Audit was presented to the District in August 2014. The employee was hired October 23, 2014.

Internal Audit recommends the fingerprint clearances be printed out, included with the new hire form, and submitted to the Director of Human Resources for approval. Additionally, Internal Audit recommends the District review all current employee files, including bus drivers & monitors, for proper fingerprint clearances. The fingerprint clearances should be printed out for any file found without a printed clearance. The District should verify all current employees have proper fingerprint clearances.

2. Form I-9 - The Department of Homeland Security of the Office of Management and Budget (OMB No. 1615-0047), requires that all employees, citizens and non-citizens, hired after November 6, 1986 and working in the United States must complete an Employment Eligibility Verification Form (I-9).

The I-9 instructions, section 2, state the employer is to record the title, number and expiration date, if any, of the documents submitted for verification. Some examples of documentation are a driver's license, social security card, and passport. Internal Audit noted I-9 section 2 was left blank, the documentation review date was not recorded, and the District staff member reviewing the documentation did not sign the form in 1 of 10 employee files reviewed. The identification documentation was photocopied. The 2013-14 Payroll and Personnel Audit was presented to the District in August 2014. The employee was hired September 22, 2014. Internal Audit recommends the District verify all current employees have properly completed I-9's.

	Fiscal Year	Inherent Risk	Control Risk	Residual Risk
Governance	13-14	Moderate	Moderate	Moderate - 4
	14-15	Moderate	Moderate	Moderate - 4

	Fiscal Year	Inherent Risk	Control Risk	Residual Risk
Purchasing and Expenditures	13-14	Considerable	Moderate	Moderate - 6
	14-15	Considerable	Moderate	Moderate - 6

1. Confirming Purchase Orders - Internal Audit noted 3 of 16 purchases sampled used confirming purchase orders. Confirming purchase orders result when purchase orders are prepared after the actual purchase is made. Confirming purchase orders bypass the purchase process, and can lead to over expenditures and/or committing the District to purchases that are not reasonable and necessary. Confirming purchase orders should only be used in a "real emergency". The emergency or situation at hand should be clearly documented on the purchase order to support the use of a confirming purchase order. Additionally, the purchase was paid without a BOCES form stating the transaction was using a confirming PO and being signed by a district representative.

Recommended Implementation Timeframe

Internal Audit suggests implementation of the above recommendations by May 2015.

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, please see the Three Year Internal Audit Plan ~ Addendum on the next page.

Three Year Internal Audit Plan ~ Addendum

Internal Audit performed the 2014-15 Risk Assessment Update for the Horsehead 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: 2014-2015	Medicaid
Year 2: 2015-2016	Payroll and Personnel
Year 3: 2016-2017	Extraclassroom Activities

**** 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 the Risk Assessment Update during 2015-2016 to determine whether the Board wishes to update their audit plan.

Please indicate whether the Board agrees in the current year to 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:

Year 1: 2014-2015

Year 2: 2015-2016

Year 3: 2016-2017

District Clerk – Please complete 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!