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



**2015-2016
Internal Audit Risk Assessment
Update Report**

February 2016

Executive Summary

Internal Audit performed the 2015-2016 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 Student Services and Data for the 2015-2016 school year.

- Purchasing and Expenditures
- Payroll and Personnel
- Extraclassroom Activities
- Accounting and Reporting
- Student Services and Data

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 February 2016.

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	14-15	Low	Low	Low – 3
	15-16	Low	Low	Low – 3

	Fiscal Year	Inherent Risk	Control Risk	Residual Risk
Revenue and Cash Management	14-15	Moderate	Low	Low – 3
	15-16	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	14-15	Low	Moderate	Moderate – 5
	15-16	Low	Moderate	Moderate – 5

1. Assets – Internal Audit tested a sample of 10 assets in the District. Of the 10 assets tested, 2 assets could not be located. The 2 assets were a test scorer and a safe. Internal Audit noted other test scorers that were found are not being used and are obsolete. Internal Audit recommends the test scorers be disposed of and removed from the inventory listing. Internal Audit also recommends District staff be reminded of proper asset disposal and location transfer procedures.

	Fiscal Year	Inherent Risk	Control Risk	Residual Risk
Accounting and Reporting	14-15	Moderate	Moderate	Moderate – 6
	15-16	Moderate	Moderate	Moderate – 5

Internal Audit noted overall improvement in the area of Medicaid billing.

1. Therapist Session Notes – Therapist session notes are required to be entered into IEP Direct for Medicaid billings to be reimbursed. Internal Audit noted speech therapy session notes were not entered within 5 days of service, per district procedures, in 1 of 5 student files tested. Internal Audit recommends therapist enter session notes in IEP Direct within 5 days of service, per district procedures, to ensure billing information is submitted, billed, and payment is received timely by the district.

	Fiscal Year	Inherent Risk	Control Risk	Residual Risk
Student Services and Data	14-15	Moderate	Moderate	Moderate – 5
	15-16	Moderate	Moderate	Moderate – 6

1. School Lunch Cashier Till Balancing - Internal Audit noted if the cashier's till did not balance at the end of a meal, the cashier can post an adjustment to the control amount that should be in the till, thereby forcing the till to balance. Internal Audit recommends cashiers not be allowed to make adjustments to the control amount while balancing their till. If a posting adjustment is needed, the cashier should notify the manager, and the manager should complete the posting adjustment. Adjustments are sometimes needed if a check from a parent is not properly posted between siblings. Internal Audit also recommends the manager verify the cashier has not made any adjustments during the till balancing process by running a "Cash Out Log Deposit Detail Report" and comparing the amounts on the cashier's original report.

2. Vending Machine Inventory - Reconciliations between vending machine collections and units sold are not currently being done. Without a reconciliation, there is no way to track how much money should be present from sales, and how much inventory should be remaining in the machine. For example, if there are 100 bottles of water at \$1.00 each, and 30 are sold, there should be \$30 in cash and 70 bottles remaining in the machine. Internal Audit recommends reconciliations be completed for the vending machines, and the reconciliations be reviewed by the food service director for proper oversight and segregation of duties. The reconciliation should include beginning inventory, plus items added, less items sold, equals ending inventory.

3. Vending Machine Collections – One staff member is currently counting the money from the vending machine. Without a reconciliation as noted above, there is no way to determine how much money should be in the machine. Additionally, having only one staff member counting the money does not provide proper segregation of duties. Internal Audit recommends two staff members need to count vending machine money. The first person needs to count the inventory and determine items sold / how much money should be in machine. Second person needs to count the money. First person needs to count money and reconcile to inventory. Both staff members need to sign off on the amount of money present. The collections should be reviewed by the food service director for proper oversight and segregation of duties.

4. School Bus Student Safety Drill - A school bus student safety drill is required to be given between November 1st and December 31st each year. The drill must cover appropriate riding behavior and evacuating safely from a school bus. The high school did not provide the required drill until January 7th and 8th. Internal Audit recommends the high school complete the drill timely in the future.

5. School Bus Driver Physicals – Internal Audit noted a school bus driver trainee had a physical at the beginning of the training period, but did not have a physical within 4 weeks of becoming a regular bus driver per SED Regulation 8 NYCRR 156.3 b3ii. The Transportation Department is changing the procedure for new hire bus driver physicals. A physical will be given before the trainee drives the bus to ensure the trainee passes the physical, for student safety, and to prevent spending time and money training someone who will not pass the physical. A second physical will be given within 4 weeks of the trainee becoming a regular bus driver.

	Fiscal Year	Inherent Risk	Control Risk	Residual Risk
Extracurricular Activities	14-15	Considerable	Moderate	Moderate – 7
	15-16	Considerable	Moderate	Moderate – 7

1. 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, and if all clubs elected officers. Clubs should be prohibited from conducting deposits or disbursements with the central treasurer until the proper signature sheets are on file.

2. Cash Receipts Documentation – Internal Audit recommends documentation showing the student’s name, check number, amount paid, and receipt number issued to each student be given to the central treasurer for deposits. The word “cash” should be written in place of the check number if the student deposits cash. The central treasurer should not process deposits without adequate supporting documentation.

3. Student Ledgers – Internal Audit noted 2 clubs conducting financial transactions without maintaining a student ledger of the transactions. Club treasurers should maintain a student ledger in order to learn business skills and to reconcile with the central treasurer’s ledger. The District should continue to communicate to club advisors and officers the importance of maintaining student ledgers and reconciling with the central treasurer’s ledger.

	Fiscal Year	Inherent Risk	Control Risk	Residual Risk
Payroll & Personnel	14-15	Considerable	Moderate	Moderate – 6
	15-16	Considerable	Moderate	Moderate – 5

1. Fingerprint Clearances - Fingerprints for new hires were submitted to NYS via GST BOCES. However, the District did not verify the fingerprint / background check cleared with NYS before the new employees started working for the District in 4 of 18 employee files tested. However, all 4 employees were hired before the 2015-16 school year. The fingerprint clearance dates for 2 of the 4 employees likely resulted from the District verifying all employees have the proper fingerprint clearances.

	Fiscal Year	Inherent Risk	Control Risk	Residual Risk
Governance	14-15	Moderate	Moderate	Moderate – 4
	15-16	Moderate	Moderate	Moderate – 4

	Fiscal Year	Inherent Risk	Control Risk	Residual Risk
Purchasing and Expenditures	14-15	Considerable	Moderate	Moderate - 6
	15-16	Considerable	Moderate	Moderate - 6

Internal Audit noted improvement in the area of confirming purchase orders.

1. Confirming Purchase Orders - Internal Audit noted 1 of 15 purchases sampled used confirming purchase orders. Confirming purchase orders result when purchase orders are prepared after the actual purchase is made, bypassing the purchasing process. The confirming PO resulted from a private school within the District not following the proper purchasing procedures. Internal Audit recommends private schools in the District be reminded of the proper purchasing procedures.

2. Credit Cards – Internal Audit noted the Chemung Canal Credit Card contains a “Cash Advance Plan”. Internal Audit recommends removing the “Cash Advance Plan” from the credit card to prevent cash advances on the card.

Recommended Implementation Timeframe

Internal Audit suggests implementation of the above recommendations by August 2016.

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 2015-16 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: 2015-2016	Student Services and Data
Year 2: 2016-2017	Payroll and Personnel
Year 3: 2017-2018	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 the 2016-17 school year 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: 2015-2016

Year 2: 2016-2017

Year 3: 2017-2018

