

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



**2016-2017  
Internal Audit Risk Assessment  
Update Report**

**February 2017**

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## **Executive Summary**

Internal Audit performed the 2016-2017 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 Athletics (Part of the Extraclassroom Activities Audit Area) for the 2016-2017 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 January and February 2017.

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.).

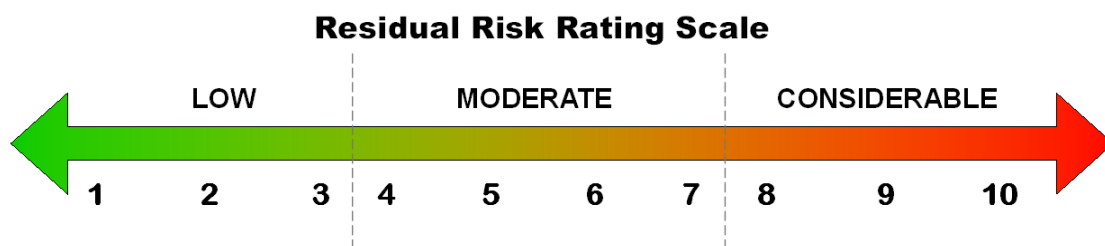
There are three categories of risk:

- **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 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	15-16	Low	Low	Low – 3
	16-17	Low	Low	Low – 3

	Fiscal Year	Inherent Risk	Control Risk	Residual Risk
Revenue and Cash Management	15-16	Moderate	Low	Low – 3
	16-17	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	15-16	Low	Moderate	Moderate – 5
	16-17	Low	Moderate	Moderate – 5

	Fiscal Year	Inherent Risk	Control Risk	Residual Risk
Accounting and Reporting	15-16	Moderate	Moderate	Moderate – 5
	16-17	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 skilled nursing session notes were not entered within 5 days of service, per District procedures, in 1 of 6 student files tested. The registered nurse is a BOCES employee, and session notes for the month are being entered into IEP Direct once a month. Internal Audit recommends nurses 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	15-16	Moderate	Moderate	Moderate – 6
	16-17	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. School Lunch Transfers – Internal Audit noted small dollar amounts are being transferred between siblings by cashiers, or by managers logged in as cashiers. The transfers are being done because one sibling is short a small amount of money, such as .75 cents.

Small dollar amounts should not be transferred between siblings by cashiers or managers for proper internal controls. Repeated small dollar transfers can lead to errors and causes additional work for the food service staff as students go through the lunch line. It is the parent's responsibility to ensure each child has money on their account. On occasion, if the parent contacts the school and request a larger transfer between siblings, such as \$20, the transfer should be completed by a manager logged into the system as a manager. Internal Audit also recommends the food service director review student transfers on at least a monthly basis to ensure small dollar transfers are not occurring.

Internal Audit also noted an instance where \$7 was transferred from one student to another without parent authorization, and the students were not siblings. All transfers must be approved by the parent.

	Fiscal Year	Inherent Risk	Control Risk	Residual Risk
Extraclassroom Activities	15-16	Considerable	Moderate	Moderate – 7
	16-17	Considerable	Moderate	Moderate – 8

1. Student Ledgers – Internal Audit noted 6 of 11 high school student ledgers tested did not balance with the central treasurer's ledger. The 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.

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. This procedure should also be used for sports teams and summer camp.

3. Athletic Concession Stands - Reconciliation between sales and remaining inventory are not being completed after a sporting event, inventory records are not kept, and the inventory is stored in the middle school store, where other staff and students have access to it. Internal Audit recommends reconciliations be completed, inventory records be kept, and the inventory be stored where only concession stand staff have access. Due to the amount of time it takes to properly run the concession stands, Internal Audit recommends the staff member in charge of the stands should not be coaching a sport while in charge of the stands. Or, the District should consider setting up a Booster Club to run the stands.

4. Athletics Varsity H Signatures – Varsity H now oversees all sports. Deposit and disbursement request are now signed by the Varsity H advisor and student treasurer. Internal Audit noted 8 of 11 deposits and disbursements

tested did not have the proper signatures. Internal Audit recommends continuing to communicate the new procedures to the coaches.

5. Deposits – Internal Audit noted 4 of 5 athletic deposits tested were not deposited timely. This is due to the central treasurer not being notified funds are ready for deposit. Internal Audit recommends the Varsity H advisor and the central treasurer count deposits together, and sign off on the deposit slip. This will provide proper controls as funds go from one employee to another, and also identify any errors present in the deposit. This procedure should also be used at the middle school, high school, and for athletic summer camps.

6. Athletic Summer Camps - Reconciliations between students enrolled in summer camp and money deposited are not being completed. Additionally, funds are not being deposited timely. Internal Audit recommends reconciliations be completed by the school business official or district treasurer, and funds be deposited within 3 business days of receipt.

Gift cards were purchased for summer camp workers. The gift card sample totaled \$3,500, and the workers are college students. There are no records of who received the gift cards. If the District continues to use gift cards, there needs to be written documentation of the dollar amount purchased, dollar amount disbursed, and the signature of the person receiving the gift card.

	Fiscal Year	Inherent Risk	Control Risk	Residual Risk
Payroll & Personnel	15-16	Considerable	Moderate	Moderate – 5
	16-17	Considerable	Moderate	Moderate – 5

1. I-9 Forms - The Department of Homeland Security requires all employees hired after November 6, 1986, to complete an Employment Eligibility Verification Form. Employees are to submit documentation for review showing their legal right to work in the U.S. Some examples of documentation are a driver's license, social security card, and passport.

Internal Audit noted information such as business address, hire date, review date, printed name, signature, and title of the District authorized representative reviewing documentation was not filled out on 1 of 16 I-9 Forms reviewed. Internal Audit recommends all information be properly filled out on the I-9 Forms.

	Fiscal Year	Inherent Risk	Control Risk	Residual Risk
Governance	15-16	Moderate	Moderate	Moderate – 4
	16-17	Moderate	Moderate	Moderate – 4

	Fiscal Year	Inherent Risk	Control Risk	Residual Risk
Purchasing and Expenditures	15-16	Considerable	Moderate	Moderate - 6
	16-17	Considerable	Moderate	Moderate - 6

1. Confirming Purchase Orders - Internal Audit noted 3 of 17 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 purchase orders were for school lunch summer reimbursements, a Pre-K program contract agreement, and a conference. Internal Audit recommends staff be reminded of proper purchasing procedures.

**Recommended Implementation Timeframe**

Internal Audit suggests implementation of the above recommendations by August 2017.

### **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.

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### Three Year Internal Audit Plan ~ Addendum

Internal Audit performed the 2016-17 Risk Assessment Update for the 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:** 2016-2017      Athletics (Part of the Extraclassroom Activities Audit Area)

**Year 2:** 2017-2018      Payroll and Personnel

**Year 3:** 2018-2019      Assets & Inventory

### **\*\* 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 2017-18 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:** 2016-2017

**Year 2:** 2017-2018

**Year 3:** 2018-2019