

**Pelham Union Free School District**  
**Risk Assessment Update Report**  
May 1, 2015

## Risk Assessment Update Report

To the Board of Education and Audit Committee  
Pelham Union Free School District  
Pelham, New York

We have performed the annual risk assessment update of the Pelham Union Free School District (District) as required by Chapter 263 of the Laws of New York, 2005 and as per our agreement of July 1, 2014.

This engagement is in accordance with auditing standards generally accepted in the United States of America and the applicable standards contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. We have also considered the guidelines promulgated by the New York State Education Department in connection with such risk assessments.

Specifically, we performed the following:

- We reviewed our understanding of the critical business processes of the District. These critical business processes included, but were not limited to:
  - Governance and planning
  - Accounting and reporting
  - Revenue and cash management
  - Payroll and related benefits
  - Purchasing and related expenditures
  - Facilities and equipment
  - Student services
  - Student related data
  - Information technology
- We identified the key risks based on our understanding of these business processes.
- We identified the stated controls that are currently in place to address those risks.

These procedures were accomplished through interviewing District management and accounting and other departmental personnel to determine the flow of accounting information and controls placed in operation. The scope of our engagement did not include testing the operating effectiveness of such controls.

Our procedures were not designed to express an opinion on the internal controls of the District, and we do not express such an opinion. Additionally, because of inherent limitations of any internal control, errors or fraud may occur and not be prevented or detected by internal controls. Also, projections of an evaluation of the accounting system and controls to future periods are subject to the risk that procedures may become inadequate because of changed conditions.

We would like to express our appreciation for the cooperation and assistance that we received from the District's administration and other employees during our engagement, especially the Business Office personnel.

This report is intended solely for the use and information of the Board of Education and its Audit Committee and the management of the Pelham Union Free School District, and is not intended to be and should not be used by anyone other than these specified parties.

*Cullen & Danowski, LLP*

May 1, 2015

## PELHAM UNION FREE SCHOOL DISTRICT

### Introduction

May 1, 2015

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Chapter 263 of the Laws of New York, 2005 requires most districts to create an internal audit function. The creation of this function requires districts to engage either a qualified audit firm or individual to make an initial risk assessment of the design of the district's internal controls; annually update this assessment; and, periodically test these controls for operational effectiveness and efficiency. This report addresses the second requirement, which is an annual risk assessment update.

Internal controls are the checks and balances over the various processes or functions that comprise the operations of a district. As previously mentioned, we have identified the following key processes to be considered in the risk assessment update (Note: each one of the key processes is comprised of sub-functions.)

- Governance and planning
- Accounting and reporting
- Revenue and cash management
- Payroll and related benefits
- Purchasing and related expenditures
- Facilities and equipment
- Student services
- Student related data
- Information technology

One key element in any internal control system is the concept of **segregation of duties**. This concept ensures that one person cannot execute a transaction without at least one other individual checking his or her work. Of course, where segregation of duties is not feasible, the district can employ compensating controls.

Nevertheless, there are some important concepts that should be understood when reviewing internal controls. These concepts are:

- An internal control system is designed to provide reasonable but not absolute assurance in safeguarding the assets of the district.
- The concept of reasonable assurance recognizes that the cost of the internal control should not exceed the benefits derived.
- There are inherent limitations that should be recognized in considering the potential effectiveness of any internal control system, e.g., errors can result from misunderstanding of instructions, mistakes of judgment, carelessness, or other personal factors. More importantly, it is **collusion** that poses the greatest threat to any internal control system. If two employees collude in order to circumvent the controls set up by the district, they could perpetrate a fraud.

The initial risk assessment required the internal auditor to obtain an understanding of both the inherent and control risks associated with the various functions within the District. The risk assessment update requires the internal auditor to identify the changes in procedures, policies, personnel, and systems that may have an impact on these risks and possibly alter the initial risk assessment's level of control risk.

**Control risk** measures the adequacy of internal controls designed to mitigate the inherent risk within the process. In this engagement, we have assessed the control risk based upon our interview process. The testing of the controls, which is performed during the detailed testwork, could support the lowering of the prior control risk assessment associated with individual processes and sub-functions.

**PELHAM UNION FREE SCHOOL DISTRICT**

**Introduction (Continued)**

May 1, 2015

We have organized this report into the following four sections:

The first section is a risk assessment table. In this table, we identify the processes or functions that we have reviewed. This table includes our assessment of the control risk associated with each process. There are two control risk columns to reflect the prior year risk assessment level and the current year risk assessment level based on the results of the risk assessment update as well as the detailed testwork performed for selected processes. **Since the testing of controls has not been done for all processes, it is important to note that this table should not be viewed as the final assessment of the District's control environment.** The Risk Assessment Table also includes our suggestions for processes to be tested during the coming year. However, the decision of which processes to review in detail is at the discretion of the Audit Committee.

The second section includes the current observations and recommendations based on new findings identified during this risk assessment update. These are categorized based upon the areas of our audit program similar to the prior risk assessment report and these findings have been considered in the assessment of the level of control risk.

The third section contains the current status of the observations and recommendations that are still open for areas of potential improvement in the District's internal controls or operations included in the following reports:

<i>Report Type</i>	<i>Issue Date</i>	<i>Area(s)</i>
Risk Assessment	May 1, 2014	District-Wide
Agreed-Upon Procedures	November 18, 2014	Capital Assets

These results have been considered in the assessment of the level of control risk.

The fourth section contains the observations and recommendations included in the prior risk assessment and/or agreed-upon procedures reports that are now considered closed. The fact that these items have been implemented or resolved was considered in the assessment of the level of control risk.

Some of the recommendations may require a reassignment of duties and/or an addition to Business Office personnel. However, any enhancement of controls should be done after a careful cost-benefit analysis.

Commissioner of Education Regulation §170.12(e)(4) requires that a corrective action plan, approved by the board of education, must be filed within 90 days of issuance with the New York State Education Department.

The District should send the Corrective Action Plan (CAP) along with the respective Internal Audit Report via mail or email to the addresses listed below. The report needs to accompany the CAP to allow the Office of Audit Services (OAS) to reconcile the District's CAP to the report to ensure all items have been addressed (i.e., CAP is not missing anything).

***Submission Information – Mail & Email***

New York State Education Department (NYSED)  
Office of Audit Services (OAS)  
89 Washington Avenue  
Room 524 EB  
Albany, NY 12234  
[Fsanda133@mail.nysed.gov](mailto:Fsanda133@mail.nysed.gov)

**PELHAM UNION FREE SCHOOL DISTRICT**  
**Risk Assessment Table**  
 May 1, 2015

(L=Low, M=Moderate, H=High)

<b>Business Process</b> Area	<b>*Date of Detail Testing</b>	<b>Control Risk</b>			<b>Proposed Detail Testing</b>
		<b>Prior Year</b>		<b>Current Year</b>	
<b>Governance and Planning</b>					
Governance Environment			M		M
Control Environment			M		M
Strategic Planning		L		L	
Budget Development			M		M
Budget Administration			M		M
<b>Accounting and Reporting</b>					
Assessing Financial Condition			M		M
Financial Accounting and Reporting			M		M
Auditing		L		L	
Financial Oversight			M		M
Fund Balance Management			M		M
<b>Revenue and Cash Management</b>					
Real Property Tax			M		M
State Aid			M		M
Medicaid			M		M
Out of District Tuition			M		M
Use of Facilities		L		L	
Donations			M		M
Collection & Posting of Receipts			M		M
Cash Management			M		M
Investment Management			M		M
Petty Cash		L		L	
Bank Reconciliations			M		M
<b>Grants and Special Education</b>	AUP 3/4/13 **	L		L	
General Processing/Monitoring			M		M
Grant Application			M		M
Allowable Costs			M		M
Cash Management			M		M
Reporting and Monitoring			M		M
Compliance			M		M
<b>Payroll, HR and Related Benefits</b>					
Payments to Employees	AUP 3/2/09	L		L	
Allocation of Expenditures	AUP 3/2/09	L		L	
General Employee Administration			M		M
Employee Benefit Administration	AUP 11/27/13	L		L	
Employee Attendance	AUP 3/2/09	L		L	
Hiring/Termination of Employees			M		M

\* Indicates the issuance date of an agreed-upon procedures report (AUP) for that area.

\*\* Financial operations of Special Education.

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**Risk Assessment Table (Continued)**  
 May 1, 2015

(L=Low, M=Moderate, H=High)

<b>Business Process</b> Area	<b>*Date of Detail Testing</b>	<b>Control Risk</b>				<b>Proposed Detail Testing</b>
		<b>Prior Year</b>		<b>Current Year</b>		
<b>Purchasing and Related Expenditures</b>						
PO System	1/10/2012	L		L		
Payments Outside PO System	1/10/2012	L		L		
Purchasing Process	1/10/2012	L		L		
Allocation of Expenditures	1/10/2012	L		L		
Payment Processing	1/10/2012	L		L		
Travel and Conferences			M		M	
Credit Cards		L		L		
<b>Facilities</b>						
Facilities Maintenance			M		M	✓
Construction Planning			M		M	✓
Construction Monitoring			M		M	✓
Construction Completion			M		M	✓
<b>Fixed Assets</b>						
Acquisition and Disposal	11/14/2014			H	M	
Inventory	11/14/2014			H	M	
<b>School Environment</b>						
Safety and Security			M		M	
<b>Student Transportation</b>						
Fleet Maintenance			M		M	
Risk Management			M		M	
Personnel Compliance			M		M	
Facilities Maintenance and Security			M		M	
<b>Food Service</b>						
Federal and State Reimbursement			M		M	
Sales Cycle and System			M		M	
Inventory and Purchases			M		M	
Eligibility Verification			M		M	
<b>Extraclassroom Activity Fund</b>						
General	AUP 5/12/08		M		M	
Cash and Cash Receipts	AUP 5/12/08		M		M	
Expenditures and Purchasing	AUP 5/12/08		M		M	
Inventories	AUP 5/12/08		M		M	
<b>Student Related Data</b>						
Tracking Student Attendance			M		M	
Student Performance Data			M		M	
<b>Information System</b>						
Governance			M		M	
Network Security			M		M	
Financial Application Security			M		M	
Other Application Security			M		M	
Disaster Recovery			M		M	

\* Indicates the issuance date of an agreed-upon procedures report (AUP) for that area.

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**CURRENT OBSERVATIONS AND RECOMMENDATIONS**

Security Access

During the time of our review, the District was implementing a card access system. As part of this implementation, procedures need to be established to immediately remove access for employees separating from the District.

We recommend that the District develop procedures (in conjunction with procedures to notify the IT department of staff changes) to help ensure that access to the buildings is available only to appropriate people.

**STATUS OF PRIOR OBSERVATIONS AND RECOMMENDATIONS (OPEN ITEMS)**

**EXTRACLASSROOM ACTIVITIES**

**Middle School Extraclassroom Activities**

The basic structure of the Middle School (MS) extraclassroom accounts was not within the guidelines promulgated by New York State Education Department (NYSED). Individual clubs were not involved in the financial operations of the accounts, and there was limited financial involvement of students in many of the transactions. Some specific concerns included:

- The extraclassroom clubs did not have their own student treasurers; there was a MS student treasurer who assisted the Central Treasurer with reviewing disbursements only. The MS Student Treasurer did not count deposits and match them to the deposit amount recorded on the form.

Risk Assessment Update - April 2014

The MS Student Treasurer assists the Central Treasurer with processing the deposits. Additionally, procedures were to be changed to require that any club that has financial activity must have a student treasurer assigned. This student treasurer should assist the club advisor with both receipts and disbursements for the club. The student treasurer should sign both the deposit form and the disbursement form.

Risk Assessment Update April 2015

There are still some clubs that have financial activities that do not have a student treasurer. The student treasurer who supports the Central Treasurer has expanded the role to include counting cash and confirming deposits.

- The student treasurers for the individual clubs did not sign-off on disbursements for their respective clubs, the Student Treasurer of the Student Government Club signed-off on all extraclassroom disbursements for the MS.

Risk Assessment Update - April 2014

This form was updated at the beginning of the year to a requirement to obtain a pre-approval for all disbursements. Additionally, the form was to be updated to include a space for the student treasurer for the club to sign the form.

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Risk Assessment Update April 2015

There has been no change to the procedure.

- The Extraclassroom Treasurer did not provide club balance information to the faculty advisors to allow them to agree their records to the District's.

Risk Assessment Update – April 2014

The Central Treasurer planned to implement this recommendation at the end of the school year. The procedure would be for the Central Treasurer to print balance information for each club and have the club advisor sign the confirmation and return it.

Risk Assessment Update – April 2015

This has not been implemented.

**High School Extraclassroom Activities**

While the basic structure of the extraclassroom clubs did appear to be in agreement with the state requirements there were several items worth noting:

- The student treasurers for the clubs did not sign-off on the Deposit Forms indicating they were in agreement with the deposit amount.

Risk Assessment Update – April 2014

The Deposit Form was to be updated to include a space for the student treasurer of the club to sign-off on the deposits.

Risk Assessment Update – April 2015

This has not been implemented.

- The Deposit Form does not contain a space large enough to record an adequate description for deposits. Descriptions for the deposits were not detailed to determine if the deposit was complete. In addition, the form does not contain a space for the student treasurer to sign off on the deposit.

Risk Assessment Update – April 2014

The new deposit form was to be implemented during the end of the 2013-14 school year. Additionally, procedures for the Club Advisors were to be drafted to accompany this form.

Risk Assessment Update – April 2015

This has not been implemented. We understand this will be addressed in the 2015-16 school year.

- There is a club with no student activity (Caps & Gowns).

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Risk Assessment Update – April 2015

There has been no change in the structure of this activity.

**PURCHASING**

**(From AUP Report dated January 10, 2013 and one comment from Risk Assessment Report dated May 15, 2012)**

**Invoices Exceeding the Purchase Order**

We recommended that procedures be documented as to what amount of increase to a purchase order (PO) warrants the Purchasing Agent's review, and procedures be in place to communicate the increase with the requisitioner and departmental approver.

Risk Assessment Update – April 2013

This had been partially implemented. A form had been implemented at the start of the school year, which required the department head to document the reason when the invoice date was prior to the PO date. This completed form was returned to the Accounts Payable (AP) Clerk and a copy was sent to the Assistant Superintendent for Business. The form was completed by the AP Clerk and sent to the department head if the invoice amount exceeded the PO amount. No formal procedure had been documented as to what amount of increase to a PO warranted the Purchasing Agent's review and approval. This issue should be documented in the purchasing regulations.

Risk Assessment Update – April 2014

There had been no change in the procedure.

Risk Assessment Update – April 2015

No formal procedure has been documented for an amount of increase to a PO that warrants the Purchasing Agent's review and approval. The practice has been for the Accounts Payable Clerk to increase POs for small amounts usually related to shipping charges. We were informed that there has not been any situation in which an existing PO was increased by a significant amount that would have warranted attention and review by the Purchasing Agent. We continue to recommend that a written regulation be developed related to processing payments in excess of the PO.

**INFORMATION TECHNOLOGY**

**Access Changes**

We recommended the District formalize a timely notification process for informing the Information Technology (IT) Department about new hires, terminations, leaves of absence and students entering and leaving the District so that the IT Department can add, change or remove security clearance to the respective systems.

Risk Assessment Update – March 2011

We were told that communications had improved significantly related to granting and removing access to and from the District network. However, formal procedures had not been implemented. We recommended that

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procedures be put into place to ensure access changes were processed on a timely basis after receipt of authorization from appropriate personnel.

Risk Assessment Update – March 2012 – March 2015

In 2012, the Director of Information Technology had drafted a proposed procedure to address these issues, but it has not been implemented.

**CAPITAL ASSETS**

**Recommendations (from the AUP report related to capital assets dated November 18, 2014)**

We recommended the District consider implementing the following items to strengthen internal controls over inventory:

**Written Procedures**

Develop written procedures for the roles and responsibilities related to capital assets, that address the following:

- Procedures for tagging new equipment purchases and accurately recording them in the inventory listing including the tag number and serial number of all assets
- Procedures for when items should be tagged (i.e., procedures for items that may not be convenient or accessible to tag)
- Process for notifying the individual responsible for the location of the assets, including any moves, disposals, etc.
- Procedures for updating the information from each school in the capital assets listing, including the review process of the information, how often the information should be updated, and ensuring that all information is received

Risk Assessment Update – April 2015

All these items are addressed in the draft procedure memo being developed. Business Office staff are currently performing the day-to-day operations related to fixed asset management and will be responsible to ensure the year-end updates to the asset inventory are complete and accurate.

Upon adoption of the written procedures, individuals outside of the Business Office will become more involved in the management of capital assets under the supervision of the Business Office.

**Physical Inventories**

The District should develop a system of regular physical inventories for a portion of the District's assets so that the perpetual records can be verified. Differences between the physical inventory and the inventory records should be investigated to identify discrepancies and to determine if the processes and procedures related to inventory control have been operating as designed.

Risk Assessment Update – April 2015

This issue is under consideration for implementation in the next fiscal year.

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**Board Policy**

The District policy requirement of an annual physical inventory should be reviewed. Consideration should be given to an annual inventory of a portion of the inventory, with a complete inventory done at some designated number of years.

*Risk Assessment Update – April 2015*

The policy requiring annual physical inventories needs to be reviewed.

**BENEFITS**

**(From the AUP report related to benefits-dated November 27, 2013)**

**Checklist for First Payroll**

A checklist should be prepared for the tasks required to be completed for the first payroll of each fiscal year (July and September). This checklist would be completed by one employee and reviewed and approved by another employee. This would help ensure that all items associated with the first payroll of the year had been addressed.

*Risk Assessment Update – April 2014*

A payroll calendar was established detailing which bargaining units are to be paid each pay period; including any special payouts, during that pay period. Additionally, any other activities (i.e., FSA open enrollment) were included on the calendar as a reminder. We continue to recommend that a checklist be developed for the initial payrolls of each year that could be used to help ensure that no process or adjustments have been omitted.

*Risk Assessment Update – April 2015*

This has not been implemented.

**STATUS OF PRIOR OBSERVATIONS AND RECOMMENDATIONS (CLOSED ITEMS)**

**PERFORMANCE REVIEWS**

During our review, we noted that annual performance evaluations were not performed for all employees during the 2010-11 fiscal year. An annual review is important to provide written feedback to employees regarding performance.

We recommended that the District develop procedures to ensure that all employees were reviewed in accordance with the related collective bargaining agreements and state regulations, and that all employees be formally reviewed at least annually. A list of employees not reviewed would be maintained by the appropriate assistant superintendent and the appropriate administrators would be advised when reviews are due.

*Risk Assessment Update – April 2013*

This had not been implemented.

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Risk Assessment Update – April 2014

The District was implementing a plan to require administrators to review non-certified staff each year by June 30. The expectation is that all non-certified staff would receive a performance evaluation by June 30, 2015, and annually thereafter. This process would be monitored by the Business Office.

Risk Assessment – April 2015 (This issue is now closed)

This has now been implemented. The Business Office clerical staff prepares a listing of non-certified staff and works with District staff to ensure reviews are prepared annually for all non-certified staff.

**EXTRACLASSROOM ACTIVITIES**

**Middle School Extraclassroom Activities**

The Extraclassroom Treasurer did not always pay or did not remit sales tax for purchases for extraclassroom accounts. If an invoice did not have sales tax charged, the Treasurer did not call the vendor for a revised invoice or separately remit sales tax.

Risk Assessment Update – April 2014

The Extraclassroom Treasurer should modify the Disbursement Form to include a section for the advisors to check off if sales tax had been charged. If a vendor sent an invoice without sales tax, the Extraclassroom Treasurer will return the invoice to the club advisor to obtain a revised invoice. Additionally, the Extraclassroom Treasurer should distribute the sales tax table from the NYS Pamphlet on Extraclassroom Activities to the club advisors.

Risk Assessment Update April 2015 (This issue is now closed)

This has been implemented. Sales tax is being charged by vendors and remitted to NYS.

The deposit form did not contain a space large enough to record an adequate description for deposits. Descriptions for the deposits were not detailed to determine if the deposit was complete. In addition, the form did not contain a space for the Student Treasurer to sign-off on the deposit. In addition, the clubs were not using pre-numbered tickets or similar methods to account for funds received.

Risk Assessment Update – April 2014

We were informed that the new deposit form would be implemented during the end of the 2013-14 school year. Additionally, procedures for the club advisors would be drafted to accompany this form.

Risk Assessment Update – April 2015 (This issue is now closed)

This has been implemented. A new form is in use, and written instructions on the proper procedures have been issued. The form could be modified to include a section for the signature of the club student treasurer.

**High School Extraclassroom Activities**

During our review of a few receipts, we noted a deposit from the prior spring that was held by the advisor and not deposited until September.

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Risk Assessment Update – April 2014

Funds were timely deposited. We reviewed a few receipts from the 2014 year and did not note any exceptions.

A club for collecting SAT and PSAT test money that was setup a few years ago still existed with a balance of \$5,500. The Central Treasurer informed us that she spoke to the principal regarding this account, but had not been given any direction on what to do with the funds.

Risk Assessment Update – April 2014

The account still existed; however, the balance from the account was being used as a fund for students who need financial assistance with college application fees.

Risk Assessment Update – April 2015 (This issue is now closed)

These funds are being used as described above.

**EXTRACLASSROOM ACTIVITY FUND REPORTS**

We noted that the District did not prepare a quarterly fiscal report related to the Extraclassroom Activities Fund as per Commission of Education Regulation CR §172.3(b). We recommended that the District implement procedures to require the Central Treasurer to prepare a quarterly Extraclassroom Activity Fund Report for submission to the Board in compliance with CR §172.3(b).

Risk Assessment Update – April 2013

This had not been implemented. We understood that the Treasurer was reviewing the financial reports provided to the Board.

Risk Assessment Update – April 2014

We recommended that the District Treasurer work with the extraclassroom treasurers to prepare a quarterly Extraclassroom Activity Fund Report commencing with the quarter ending June 30<sup>th</sup>.

Risk Assessment Update – April 2015 (This issue is now closed)

These reports are being presented to the Audit Committee and posted to the board document website so that the reports are available to the Board of Education on a timely basis.

**BENEFITS**

**(From the AUP report related to benefits-dated November 27, 2013)**

**Invoice Documentation**

The Junior Accountant would attach each reconciliation to the respective invoice as documentation to the invoice amount. The invoice, along with the reconciliation, would then be forwarded to the Assistant Superintendent for Business for review and approval.

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*Risk Assessment Update – April 2014*

This had not been implemented.

*Risk Assessment Update – April 2015 (This issue is now closed)*

This has been implemented. The reconciliation and analysis of the invoice is attached to the invoice as supporting documentation.

**CAPITAL ASSETS**

**Recommendations (from the AUP report related to capital assets dated November 18, 2014)**

A District asset tag should be issued for all capital assets that meet the criteria detailed in the District's policy, as well as any items to be tracked in the inventory system. Asset tags should be issued in sequential order by the Business Office. Additionally, a review should be performed on a periodic basis to ensure that there are no breaks in sequence and all tags are accounted for. We further recommended a log should be created for items, which for practical reasons have not been tagged by the user department. The tag should be affixed to the applicable PO for non IT items.

*Risk Assessment Update – April 2015 (This issue is now closed)*

The Business Office is maintaining control over tags issued, and will ensure all updates are made to the capital asset register on an ongoing basis.

