

Pelham Union Free School District
Risk Assessment Update Report
April 23, 2019

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, 2018.

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

April 23, 2019

PELHAM UNION FREE SCHOOL DISTRICT

Introduction

April 23, 2019

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)

April 23, 2019

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	April 30, 2018	District Wide
Agreed-Upon Procedures	February 19, 2018	Payroll & Business Office Operations

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.

Corrective Action Plan

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 (NYSED).

The District should submit the Corrective Action Plan (CAP) along with the respective Internal Audit Report via the NYSED portal system.

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Risk Assessment Table
 April 23, 2019

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

Business Process Area	*Date of Detail Testing	Control Risk				Proposed Detail Testing
		Prior Year		Current Year		
Governance and Planning						
Governance Environment			M		M	
Control Environment			M		M	
Strategic Planning		L		L		
Budget Development			M		M	
Budget Administration			M		M	
Accounting and Reporting						
Assessing Financial Condition			M		M	
Financial Accounting and Reporting			M		M	
Auditing		L		L		
Financial Oversight			M		M	
Fund Balance Management			M		M	
Revenue and Cash Management						
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	2/19/2018	L		L		
Grants and Special Education	3/4/2013 **	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	
Payroll, HR and Related Benefits						
Payments to Employees	2/19/2018	L		L		
Allocation of Expenditures	2/19/2018	L		L		
General Employee Administration			M		M	
Employee Benefit Administration	11/27/2013	L		L		
Employee Attendance	3/2/2009	L			M	✓
Hiring/Termination of Employees			M		M	

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

** Review of financial operations of Special Education.

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Risk Assessment Table (Continued)
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(L=Low, M=Moderate, H=High)

Business Process Area	*Date of Detail Testing	Control Risk				Proposed Detail Testing
		Prior Year		Current Year		
Purchasing and Related Expenditures						
PO System	1/10/2012	L			M	✓
Payments Outside PO System	1/10/2012	L			M	✓
Purchasing Process	1/10/2012	L			M	✓
Allocation of Expenditures	1/10/2012	L			M	✓
Payment Processing	1/10/2012	L			M	✓
Travel and Conferences			M		M	
Credit Cards		L		L		
Facilities						
Facilities Maintenance	12/14/2015		M		M	
Construction Planning	12/14/2015		M		M	
Construction Monitoring	12/14/2015		M		M	
Construction Completion	12/14/2015		M		M	
Fixed Assets						
Acquisition and Disposal	11/14/2014		M		M	
Inventory	11/14/2014		M		M	
School Environment						
Safety and Security			M		M	
Student Transportation						
Fleet Maintenance			M		M	
Risk Management			M		M	
Personnel Compliance			M		M	
Facilities Maintenance and Security			M		M	
Food Service						
Federal and State Reimbursement			M		M	
Sales Cycle and System			M		M	
Inventory and Purchases			M		M	
Eligibility Verification			M		M	
Extracurricular Activity Fund						
General	5/12/2008		M		M	
Cash and Cash Receipts	5/12/2008		M		M	
Expenditures and Purchasing	5/12/2008		M		M	
Inventories	5/12/2008		M		M	
Student Related Data						
Tracking Student Attendance			M		M	
Student Performance Data			M		M	
Information System						
Governance	3/24/2017		M		M	
Network Security	3/24/2017		M		M	
Financial Application Security	3/24/2017		M		M	
Other Application Security	3/24/2017		M		M	
Disaster Recovery	3/24/2017	L			L	
Financial Operations	3/24/2017	L			L	

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

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CURRENT OBSERVATIONS AND RECOMMENDATIONS

None noted.

STATUS OF PRIOR OBSERVATIONS AND RECOMMENDATIONS (OPEN ITEMS)

CONFIRMATION OF BALANCES

During the 2016-17 school year, the Middle School (MS) Central Treasurer stopped the formal process of confirming balances with the student advisors at year end. This is an important process to help the Central Treasurer ensure that each club had the proper balance allocated to it.

We recommended that the Central Treasurer formally confirm and reconcile year end balances with each of the individual clubs.

Risk Assessment Update March 2019

The Middle School Central Treasurer plans to formally confirm balances with the Drama Club and the General Organization Club at the end of the current school year.

EXTRACLASSROOM ACTIVITIES

Timeliness of Middle School Extraclassroom Deposits

During our review in 2016, we noted that a deposit for ticket sales for the MS Drama Club production, with cash collections totaling over \$4,000, was held for over a month prior to depositing. The event occurred January 20th and 21st; however, the deposit was not made until March 4th. There was a note on the Deposit Form indicating that the faculty advisor contacted the Central Treasurer on February 24th to make the deposit; however, the Student Treasurer was unavailable to count the money that day.

We recommended that deposits be made within 3 days of receipt.

Risk Assessment Update April 2017

This had not been implemented. In our review of deposits, we noted several deposits not made on a timely basis.

Risk Assessment Update April 2018

This had not been implemented. In our review of deposits, we noted several deposits not made on a timely basis. We had been informed that the Central Treasurer was experiencing difficulty in coordinating with the Student Treasurer to count the funds on a timely basis. The Central Treasurer will consider having another student officer count the money with them when the Student Treasurer was unavailable.

Risk Assessment Update March 2019

The Middle School continues to work on this initiative. During the Risk Assessment, we reviewed a few deposits and noted that there were still delays in depositing the funds with the Central Treasurer. This will be addressed at a meeting to be held at the beginning of the school year with the advisors, Central Treasurer, Principal and a

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member from the Business Office. The meeting will address required deposit and expenditure procedures for Extraclassroom advisors, as well as the findings from the agreed-upon procedures (AUP) report issued by Cullen & Danowski earlier this year.

PURCHASING
(From AUP Report dated January 10, 2013)

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 put 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- 2018

The District implemented procedures to have these increases reviewed and approved by the purchasing agent. However, final written regulations had not been issued.

Risk Assessment Update March 2019

It is our understanding that the purchasing regulations will be addressed for the 2019-20 school year.

FACILITIES
(From the AUP report related to facilities dated December 14, 2015)

We recommended the District consider implementing the following items to strengthen the internal controls over the financial operations of the Facilities Department:

Purchasing Policy Update

We recommended that the District consider updating the purchasing policy to include the following:

- Develop formal, written policies and procedures governing the procurement of goods and services when competitive bidding is not required.
- Develop procedures for threshold amounts required for Board approval for contracts for professional services. Also, procedures should be considered to ensure that all required documents related to the contracts (i.e., insurance documents) are maintained in one place.

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- Determine if language should be added to the purchasing policy regarding the threshold amount when a separate District bid needs to be prepared for a Facilities project instead of using existing District time and material bids or Ed-Data bids.

Risk Assessment Update – April 2017

We were informed that the District developed draft procurement regulations:

- There was wording in the draft procurement regulations to provide guidelines for procurement of goods and services when competitive bidding was not required. The procedures had been reviewed to determine the appropriate threshold amounts for obtaining quotes when the District made purchases outside of a state contract or an approved bid.
- There was wording in the draft procurement guidelines to address contracts for professional services. The draft regulations authorize the Purchasing Agent to enter into contracts for professional services up to and including \$600. Any contracts for professional services exceeding \$600 must be approved by the Board of Education. All documents related to the contracts had been maintained in the originating department.
- Threshold amounts for when a separate District bid needs to be prepared for a Facilities project had not been addressed in the draft procedures.

Risk Assessment Update – April 2018

There is a new Facilities Director who is carefully monitoring the procedures related to purchasing. However, as noted above, the District had not issued detailed regulations related to purchasing activities.

Risk Assessment Update March 2019

We understand that the purchasing regulations will be addressed for the 2019-20 school year.

Bid Process

We recommended the following to improve the bid process:

- A list of bids received would be documented for each bid opening and placed in each bid file.
- If a bid had labor and material mark-up components, a Bid Tabulation Form would be created and completed for each bid to ensure that the lowest bidder was selected. This Form would be reviewed and approved by the Assistant Superintendent for Business.

For any bids that were renewed each year, an Excel spreadsheet would be prepared with the new rates for each vendor. This spreadsheet would be provided to the Claims Auditor to facilitate the review of invoices.

- The District would develop procedures documenting a threshold amount for the review of material invoices. The District would also consider updating bid language for items not originally included in the specific bids, including requirements for when material needs to be purchased and a mark-up or mark-down percentage would be included in the bid specifications. Additionally, language would be added to the District bids to require vendors to provide third party invoices, where applicable, to be able to substantiate mark-up or mark-down percentages.

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Risk Assessment Update – April 2017

We noted the following update to the bid process:

- There was no bid checklist prepared and attached in the bid file (i.e., listing of all bids sent out and received along with the date and time received, advertisement from newspaper for bid, bid tabulation form, etc.). The bid checklist would be reviewed by the Assistant Superintendent for Business, prior to the bid being Board approved.
- A Bid Tabulation Form was created and used for all bids that had a labor and material mark-up component to ensure that the lowest bidder was selected.
- The Secretary to the Facilities Director maintained an Excel spreadsheet for all bids that were renewed with the new rates for each vendor. A copy of the new rates was placed in each bid file and attached to the invoice.
- Language had been added to the District bids that, when requested, required the vendors to provide third-party invoices to substantiate supply and material costs subject to mark-up or mark-down percentages. The Facilities Department practice was to use a threshold amount of \$5,000 to review material charges. This was not included in the draft procurement regulations.

Risk Assessment Update April 2018

The new Director of Facilities would help ensure that bid checklists were prepared and filed with each bid package.

Risk Assessment Update March 2019

No new bids were prepared during the 2018-19 school year; all bids were rolled over at the start of the year. The Secretary to the Facilities Director maintains an Excel spreadsheet by bid with the bid rate and the increased rate for each year. A copy of the spreadsheet is attached to the PO for the Secretary to utilize when reviewing the invoice. The spreadsheet is not placed in the bid file and is not attached to each invoice. The Secretary to the Facilities Director in conjunction with the Facilities Director will use the threshold amount of \$5,000 to request and review third party material charges to ensure that the mark-up percentage is in agreement with the bid. A bid checklist still should be created and implemented.

CAPITAL ASSETS

(From the AUP report related to capital assets dated November 18, 2014)

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 – April 2017

The policy requiring annual physical inventories still needed to be reviewed.

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Risk Assessment Update April 2018

The District had not yet addressed this issue. Policy #5620 *Inventories and Recording of Fixed Assets* requires inventories be done on an annual basis. The District was not in compliance with the current policy and should either change the policy or take measures to comply.

Risk Assessment Update March 2019

This has not been addressed. We expect that the Board Policy will be updated during the 2019-20 school year. The District did not conduct a physical inventory this year.

INFORMATION TECHNOLOGY (IT)
(From the AUP report related to IT dated March 24, 2017)

Timely Notification of Separations

We recommended that the District develop a system to notify the Information Technology (IT) Department when a staff member or a student separates from the District to ensure that all individuals who no longer need access to the District's network had been removed or disabled.

Risk Assessment Update April 2018

The District had a new Director of IT. They were aware of this issue and had been considering options to automate this process.

Risk Assessment Update March 2019

We were told that this has improved over the years. The IT staff is satisfied that they are getting the information on a timely basis. We will keep this open and review next year.

PAYROLL
(Recommendations from the AUP Report dated February 19, 2018)

Board of Education Policy

The District would develop a policy related to the processing of payroll, which would specify the items that required Board approval prior to payment, the individual responsible for certifying the payroll, etc.

Risk Assessment Update March 2019

The District is working on drafting the Payroll Board policy.

Increase use of Appointment Functionality

All stipends for items such as coaching, extraclassroom club advisors, etc. should be entered into FM as separate appointments with an attached pay schedule. The District should review this item when moving to nVision this spring.

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Risk Assessment Update March 2019

This will be reviewed in the 2019-20 school year to determine if the change should be made.

Confirm Proper Budget Codes

Develop procedures for Business Office personnel to confirm with an administrator from each building/department that all employees working in that building/department had been charged to the correct budget code on an annual basis.

Risk Assessment Update March 2019

This year the Treasurer established budget codes by location, which resulted in a detailed review being performed of the employees working in each building/department. The District will evaluate whether to send out a listing of employees to the various administrators on an annual basis, to confirm the employees working in the departments and schools.

STATUS OF PRIOR OBSERVATIONS AND RECOMMENDATIONS (CLOSED ITEMS)

ACCOUNTING

(Recommendations from the AUP Report dated February 19, 2018)

Review and Approval of Wire Transfers - (This issue is now closed)

All wire transfer confirmations should be reviewed and approved by the Assistant Superintendent for Business, after the Treasurer makes the transfer of funds.

Risk Assessment Update March 2019

We reviewed a sample of 3 wire transfers processed in the month of February 2019; all wire transfers had been reviewed and approved by the Assistant Superintendent for Business along with the review date.

PAYROLL

(Recommendations from the AUP Report dated February 19, 2018)

Documentation of Manual Payroll Calculations

Procedures should be developed for instances where there was a manual calculation related to a daily rate, the calculation should be documented and reviewed by a second person.

Risk Assessment Update March 2019 - (This issue is now closed)

Calculations are documented on a spreadsheet by the Junior Accountant when necessary, and the spreadsheet is reviewed along with timesheets by the Staff Assistant Finance and Administration and the Assistant Superintendent for Business during the approval process.

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Authorization of 6th period appointments

The schedule sent to the Payroll Department for employees working a 6th period would be prepared by the staff member in the Curriculum, Instruction and Personnel Department and be reviewed and approved by the Assistant Superintendent for Curriculum, Instruction and Personnel. This payment would also be reviewed and approved by the building Principal.

Risk Assessment Update March 2019 - (This issue is now closed)

A schedule of 6th period assignments is extracted from Infinite Campus into an Excel spreadsheet; the spreadsheet is reviewed and approved by the Assistant Superintendent for Curriculum, Instruction and Personnel and the building Principal prior to being sent to Payroll to process.

Payment for Benefits Days

Procedures would be put in place for when benefits days were paid out to employees per contract language; the employees' attendance balances would be updated on a timely basis.

Risk Assessment Update March 2019 - (This issue is now closed)

Procedures have been set up for the Junior Accountant to notify the Clerk in the Personnel Department responsible for attendance, when an employee was paid for benefit days. A copy of the payout is sent and the Clerk uses this document to update the employee's attendance balance to reflect the payout.

Formalize "step" increase criteria

Our understanding is that the District would work with the various bargaining units to document the criteria for employee advancement on the salary tables.

Risk Assessment Update March 2019 - (This issue is now closed)

Language has been added to the new custodial and clerical Memorandums of Agreements that all employees hired between July 1 and December 31st move up a step on July 1 and if a new employee is hired between January 1st and June 30th the employee will move up a step on July 1st of the following fiscal year.

Administration of Acceptable Use Policy

We recommended the District review the possibility of implementing an electronic staff and student acceptable use policy. Prior to any staff or student being able to use any District system, they would have to electronically accept the policy. These procedures would require updates to certain Board policies.

Risk Assessment Update April 2018

Similar to the item above, the Director of IT was considering alternatives regarding how best to effectively and efficiently ensure all users of the network were aware of the acceptable uses of the network.

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Risk Assessment Update March 2019 - (This issue is now closed)

The IT department instituted procedures to have an on line user acceptance executed by the students. This is an effective and efficient method to document that the student is aware of the policy.

Review Infinite Campus User List

We recommended the District review a listing of users for Infinite Campus and compare it to an employee list to ensure that access for employees who are no longer with the District has been deactivated and removed from user groups. The IT Department would also review all user groups to ensure that the proper access had been granted to the employees of the group.

Risk Assessment Update April 2018

The District's new Director of IT was aware of this issue and was considering options to address it.

Risk Assessment Update March 2019 - (This issue is now closed)

The IT staff has been reviewing the user list on a periodic basis over the past few years. We have been told that there were a few instances in which employees that separated still had access to the network or student management system.

Review Salary Codes

We recommended the District review salary budget codes on a periodic basis, not less than annually, to ensure that employees were charged to the correct budget codes.

Risk Assessment Update April 2018

The Business Office staff intended to do this next autumn as the school year began.

Risk Assessment Update March 2019 - (This issue is now closed)

The Business Office has reviewed the account coding for staff, and made any necessary adjustments. With the new state accounting rules related to accounting for costs by building, this procedure will become more important than it had been in the past.

