

Pelham Union Free School District

Risk Assessment Update Report

April 27, 2021



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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, 2020.

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.
- 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 27, 2021

PELHAM UNION FREE SCHOOL DISTRICT

Introduction

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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)

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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 5, 2020	District Wide
Agreed-Upon Procedures	May 5, 2020	Purchasing and Staff Attendance

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 (CAP), 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 CAP along with the respective Internal Audit Report via the NYSED portal system.

PELHAM UNION FREE SCHOOL DISTRICT

Risk Assessment Table

April 27, 2021

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

Business Process		*Date of	Control Risk						Proposed
Area		Detail Testing	Prior Year			Current Year			Detail Testing
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	1/28/2019	L			L			
	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 **		M			M		✓
	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	12/22/2020	L			L			
	Employee Attendance	5/5/2020		M			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.

PELHAM UNION FREE SCHOOL DISTRICT
Risk Assessment Table (Continued)
April 27, 2021

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

Business Process	*Date of	Control Risk						Proposed
Area	Detail Testing	Prior Year			Current Year			Detail Testing
Purchasing and Related Expenditures								
PO System	5/5/2020	L			L			
Payments Outside PO System	5/5/2020	L			L			
Purchasing Process	5/5/2020	L			L			
Allocation of Expenditures	5/5/2020	L			L			
Payment Processing	5/5/2020	L			L			
Travel and Conferences			M			M		
Credit Cards		L			L			
Facilities								
Facilities Maintenance	12/14/2015	L			L			
Construction Planning	12/14/2015	L			L			
Construction Monitoring	12/14/2015	L			L			
Construction Completion	12/14/2015	L			L			
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		
Extraclassroom Activity Fund								
General	1/28/2019		M			M		
Cash and Cash Receipts	1/28/2019		M			M		
Expenditures and Purchasing	1/28/2019		M			M		
Inventories	1/28/2019		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

Document Retention

During our interviews we noted that due to a retirement the person primarily responsible for processing student related data to New York State had questions regarding the types of historical records and files that should be maintained. We recommended she review this issue with the District's Records Officer and a written plan be developed.

STATUS OF PRIOR OBSERVATIONS AND RECOMMENDATIONS (OPEN ITEMS)

PAYROLL

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

Board of Education Policy

1. The District should 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 was working on drafting the Payroll Board policy.

Risk Assessment Update February 2021

Our understanding is that this will be addressed over the next few months.

REVENUE ACCOUNTING AND RECEIPTS PROCESSING

(Recommendations from the AUP Report dated January 28, 2019)

Recommendations:

We recommended that the District consider implementing the following items to further improve internal controls and operational efficiencies related to revenue management and cash receipts:

2. **Supporting Documentation** - All deposits received from the schools should be accompanied by a completed deposit form and supporting documentation (i.e. list of students and amount each paid) in order for the Business Office to determine that the deposit is complete. Additionally, all deposits from the buildings should be sent to the Business Office in a timely manner.

Risk Assessment Update March 2020

This had not been implemented.

Risk Assessment Update February 2021

We noted that there has been very little activity in this area in the past year due to the Covid shutdowns and reduced activity. We will follow up next year to assess if complete documentation is being provided to the business office for the school cash and checks received.

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EXTRACLASSROOM ACTIVITIES
(Recommendations from the AUP Report dated January 28, 2019)

3. **Club Ledgers and Confirmation of Balances** - Establish procedures to require each club to maintain a financial ledger and confirm in writing that ledger with the Central Treasurer at least once during the year and at the end of the year. On a test basis, the Central Treasurer at the HS should compare the deposits and expenses that are recorded to the correct account after the Student Treasurer posts the activity.

Risk Assessment Update March 2020

Both the High School and Middle School Central Treasurers planned to confirm balances at year-end. However, it is not clear that each club is maintaining a ledger. We recommend that prior to this May, club advisors be instructed to prepare ledgers for this year's financial activities.

Risk Assessment Update February 2021

Balances were not confirmed at the end of last school year and there is very little activity this year. Both central treasurers committed to working with the club advisors to confirm balances at the end of this year and to help ensure clubs are maintaining ledgers as appropriate.

PURCHASING AND STAFF ATTENDANCE
(Recommendations from the AUP Report dated May 5, 2020)

Recommendations related to purchasing:

4. **Confirming POs** - We recommended that the District consider a procedure to track confirming POs. Many Districts use a standard form that the purchaser is required to prepare to document the reason for the confirming PO.

Risk Assessment Update February 2021

The District is documenting each confirming purchase order and asking the department head for an explanation. Since the explanation is attached to the voucher package there is no file or log prepared so that volume or amount of these can be easily reviewed.

5. **Contract Support** - Many contracts require that the vendor provide proof of insurance or other supporting documentation. We recommended that the District consider developing procedures (using checklists or other means) to help ensure these required documents are in place prior to services being performed.

Risk Assessment Update February 2021

Our understanding is that this issue is being reviewed.

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Recommendations related to staff attendance:

We recommended that the District consider implementing the following items to further improve internal controls and operational efficiencies related to staff attendance activities:

6. **Benefits Award** - We recommended that the District review the award of benefit time to the custodial staff to ensure it complies with the collective bargaining agreement and/or consider clarifying the contract.

Risk Assessment Update February 2021

The Collective Bargaining Agreement is currently under negotiations and there are discussions related to benefit awards.

7. **Use of AESOP** - We recommended the District consider how to efficiently utilize AESOP and departmental calendars to help ensure all benefit time used is ultimately recorded in nVision. This should include a reconciliation at the schools and departments prior to submission to the Personnel office so that the full complete package is provided to Personnel.

Risk Assessment Update February 2021

Due to the impact of the Covid shutdown, the expansion of AESOP has not been considered.

8. **Use of Timepiece** - We recommended that the District consider how to utilize the functionality of Timepiece to record partial days off.

Risk Assessment Update February 2021

The implementation of Timepiece was delayed due to the impact of Covid. The District is currently starting a "beta" project to determine how best to implement.

9. **Manual Adjustment** - We recommended that the District consider a procedure in which manual adjustments for time awarded and regular time absence recording is reviewed by a second clerk. Criteria should be set regarding the frequency and timing of these reviews.

Risk Assessment Update February 2021

This has not been implemented.

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STATUS OF PRIOR OBSERVATIONS AND RECOMMENDATIONS (CLOSED ITEMS)

Wrong Vendor Name – We recommended that the District consider requiring cancellation of Purchase Orders with incorrect vendor names and issuing a correct purchase order.

Risk Assessment Update February 2021(This issue is now closed)

The District is aware of this issue, and in the very rare instance in which this is necessary, a new purchase order will be prepared.

Facilities materials - The District should consider whether making purchases at the end of the day and leaving materials in personal vehicles overnight is an acceptable practice.

Risk Assessment Update February 2021(This issue is now closed)

Due to the perceived limited risk associated with this, the District has determined that this procedure can continue.

Aggregate Purchases - We recommended that the District consider implementing procedures to review aggregate purchases that exceed the bid guidelines to help ensure compliance with GML §103.

Risk Assessment Update February 2021(This issue is now closed)

We confirmed that the District has considered this. In general, this is addressed by purchasing under state contracts, which allows the District to purchase outside of the bid requirements.