

Jericho Union Free School District

**Annual Risk Assessment Update
Pertaining to the Internal Controls
of District Operations**

June 2012

**INDEPENDENT ACCOUNTANTS' REPORT
ON APPLYING AGREED UPON PROCEDURES**

The Board of Education
Jericho Union Free School District

We have performed the procedures enumerated below, which were agreed to by the Jericho Union Free School District (the "District"), solely to assist the District. This agreed upon procedures engagement was performed in accordance with standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specified users of the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

We have updated our June 2012 Risk Assessment by performing certain internal audit procedures pertaining to the time period starting July 1, 2011 through June 30, 2012. The updated Risk Assessment and related internal audit plan concentrates on the following key internal control areas:

- Governance and Planning
- Accounting and Reporting
- Revenue and Cash Management
- Grants
- Payroll
- Human Resources
- Benefits
- Purchasing and Related Expenditures
- Facilities/Capital Projects
- Fixed Assets
- Food Service
- Extraclassroom Activity Fund
- Information Systems
- Pupil Personnel Services
- Transportation

We are available to discuss this report with the Board of Education or others within the District at your convenience.

These agreed upon-procedures do not constitute an examination or audit of the District's financial statements. Accordingly, we do not express such an opinion or limited assurance. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the use of the District and Board of Education and should not be used by those who have not agreed to the procedures and taken responsibility for the sufficiency of the procedures for their purposes.

Very truly yours,

Nawrocki Smith LLP

August 6, 2012

Jericho Union Free School District

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District Operations

June 2012

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Risk Assessment Overview

The Risk Assessment report provides a presentation of our view of the school district's risk pertaining to its financial operations. It gives the District's administration the information necessary to help optimize its overall performance. The report identifies, expresses, and prioritizes the key program risk so that the District's administration can focus on those areas most critical to its success. This analysis is used to define the District's risk profile. It will provide an overview of the key risks facing the District's operations.

In accordance with the laws of New York, 2005, Chapter 263, all school districts and BOCES were required to establish an internal audit function no later than July 1, 2006 and be in operation no later than December 31, 2006. This function should include, at a minimum, development of a risk assessment of district operations, including but not limited to:

- A review of financial policies, procedures and practices
- An annual review and update of such risk assessment
- Annual testing/evaluation of one or more areas of the District's internal controls
- Preparation of reports which analyze significant risk assessment findings
- Recommended changes for strengthening controls and reducing identified risk; and specifying time frames for implementation of such recommendations.

Pursuant to Section 170.12 – Regulations of the Commissioner of Education - School District Financial Accountability each school district must prepare a corrective action plan, approved by the Board of Education in response to findings to final reports issued by the internal auditor. This plan should include expected dates of implementation and should be filed with the New York State Education Department.

Internal Audit Objectives

The objectives of our engagement are as follows:

- Develop an understanding of the critical business processes of the District within each functional area
- Identify key risks based on the understanding of the business processes and stated business rules
- Identify stated controls that are currently in place to address those risks and ascertain if they are operating effectively
- Recommend improvements in internal controls

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Scope and Methodology

The Board of Education has engaged Nawrocki Smith as the District's internal auditor. In compliance with New York State Laws, we have performed an annual update to the District risk assessment with respect to policies, procedures and internal controls pertaining to District operations. The procedures applicable to the annual update of the District's risk assessment were performed during the fiscal year ending June 2012 and were carried out in order to determine an internal audit plan for fiscal year 2012/2013 and thereafter. This risk assessment will be updated annually to reflect any changes in the current control environment and the existing internal audit plan.

Our risk assessment consisted of the following methodology:

- Perform interviews of Administration and other appropriate personnel
- Document procedures within key Functional Areas
- Identify key controls and perform audit tests of those controls
- Assess effectiveness of the key controls
- Identification and review of organization structure
- Analysis of risks that are a threat to the achievement of objectives
- Create a risk profile and internal audit plan

In addition to the above procedures, we have also evaluated and considered the following within our overall risk assessment:

- District policies and procedures
- Recent Focus of State Comptroller Audits
- Board of Education/Audit Committee Meetings
- Materiality to Financial Statements
- Changes in management or key personnel
- Financial reports provided to the Board
- External auditor management letters
- District corrective action plans
- Organizational chart and job descriptions

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Internal Audit Risk Assessment Update Summary

We have analyzed fifteen (15) Business Process areas within the District and have developed an internal audit plan based upon our assessment of each area. Each of the fifteen (15) Business Processes contains multiple categories for which an extensive cycle analysis will be performed during the proposed time period noted within the risk rating and internal audit plan. The plan as presented will be revised each year based upon the required annual risk assessment update as well as events/requests that occur during the year which will impact the priority of future internal audit services.

We have summarized below the fiscal year in which an extensive cycle review will be performed for each Business Process:

2012-2013

Cycle Review:

- **Information Systems**

Other 2012-2013 Planned Internal Audit Services:

- **Key Control/Other Testing (See "T" categories on grid)**
- **Management Letter Corrective Action Monitoring**
- **Internal Audit Status Reports**
- **Payroll Payout Audit**
- **Other Internal Audit Services at the Request of the District**

2013-2014

Cycle Review:

- **Transportation**

Other Cycle Reviews to be performed subsequent to 2013/2014

- **Facilities and Capital Projects**
- **Grants**
- **Governance and Planning**
- **Accounting and Reporting***
- **Benefits***
- **Extraclassroom Activity Fund***
- **Fixed Assets***
- **Food Service***
- **Human Resources***
- **Payroll***
- **Purchasing and Related Expenditures***
- **Pupil Personnel Services***
- **Revenue and Cash Management***

*Full Cycle review completed in prior years

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Risk Rating and Internal Audit Plan

✓ = Internal Audit Services Provided
★ = Business Cycle Review Complete

X = Proposed Business Cycle Review
T = Limited Testing of Business Process

Business Process	Business Process Categories	RISK						Prior Years	2012-2013	2013-2014	Subsequent Years
		Inherent			Control						
		L	M	H	L	M	H				
Governance and Planning	Governance Environment			H	L						X
	Control Environment / Policies & Procedures			H	L			✓			X
	Budget Development			H	L						X
	Budget Administration		M		L			✓			X
Accounting and Reporting	Financial Accounting and Reporting			H	L			★	T		
	External/Internal/Claims Auditing			H	L			★			
	Fund Balance Management			H	L			★			
Revenue and Cash Management	Real Property Tax		M		L			★			
	State Aid			H	L			★			
	Out of District Tuition		M		L			★			
	Use of Facilities	L			L			★			
	Donations		M		L			★			
	Vending Machines			H	L			★			
	Collection & Posting of Receipts			H	L			★	T		
	Cash Management			H	L			★			
	Investment Management			H	L			★			
	Petty Cash	L			L			★			
Bank Reconciliations			H	L			★	T			
Grants	General Processing/Monitoring			H	L						X
	Grant Application		M		L						X
	Allowable Costs			H	L						X
	Cash Management		M		L						X
	Reporting and Monitoring			H	L						X
	Compliance			H	L						X
Payroll	Payroll Disbursements			H	L			★	T		
	Payroll Accounting & Reporting			H	L			★			
	Payroll Tax Filings			H	L			★			
	Payroll Reconciliation			H	L			★			
Human Resources	Employment Requisition/Hiring			H	L			★			
	Personnel Evaluation			H	L			★			
	Termination			H	L			★			
	Employee Attendance			H	L			★			

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Business Process	Business Process Categories	RISK						Prior Years	2012-2013	2013-2014	Subsequent Years
		Inherent			Control						
		L	M	H	L	M	H				
Benefits	Eligibility			H	L			★			
	Benefit Calculations			H		M		★	T		
	Oversight of Third Party Administrators			H	L			★			
Purchasing and Related Expenditures	PO System			H	L			★			
	Payments Outside PO System			H	L			★			
	Purchasing Process			H	L			★			
	Payment Processing			H	L			★			
	Travel and Conferences			H	L			★			
	Credit Cards			H	L			★			
Facilities/Capital Projects	Facilities Maintenance			H	L						X
	Construction Planning		M		L						X
	Construction Monitoring		M		L						X
Fixed Assets	Acquisition and Disposal			H	L			★			
	Capitalization Policy	L			L			★			
	Inventory			H	L			★	T		
Food Service	Federal and State Reimbursement			H	L			★			
	Sales Cycle and System		M			M		★			
	Inventory and Purchasing		M		L			★			
	Eligibility Verification		M		L			★			
Extraclassroom Activity Fund	General Controls			H	L			★			
	Cash and Cash Receipts			H	L			★			
	Expenditures		M		L			★			
Information Systems	Governance Security			H	L			✓	X		
	Network Security			H		M		✓	X		
	Financial Application Security			H		M		✓	X		
	Other Application Security			H		M		✓	X		
	Disaster Recovery			H		M		✓	X		

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Business Process	Business Process Categories	RISK						Prior Years	2012-2013	2013-2014	Subsequent Years
		Inherent			Control						
		L	M	H	L	M	H				
<u>Pupil Personnel Services</u>	Budgeting and Planning		M		L			★			
	STAC Reimbursement		M			M		★	T		
	Medicaid Reimbursement		M			M		★	T		
	RFP and Contracts			H	L			★			
<u>Transportation</u>	Fleet Inventory and Maintenance			H	L					X	
	Bus Routing and Planning			H	L					X	
	Labor and Supervision			H	L					X	
	Federal & State Aid Reimbursement			H	L					X	

Inherent Risk - Inherent risk is the risk of a material misstatement in the un-audited information assuming the absence of internal controls procedures.

Control Risk - Control risk is the risk that a material misstatement in the un-audited information will not be detected and corrected by the management's internal control procedures on a timely basis.

Risk Assessment Observations and Recommendations

No recommendations at this time.