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To the Audit Committee of the Board
of Education of the
Clarkstown Central School District
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Re: Risk Assessment Report 2021/22

Ladies and Gentlemen:

We have performed the procedures enumerated below, in accordance with terms of our consulting services engagement with the Clarkstown Central School District Board of Education, solely to assist you in evaluating and assessing risk related to the District's fiscal operations. The risk assessment is an integral part of the internal audit function currently required by state law. The risk assessment results will illustrate the areas determined to be of high, moderate and low risk, which will then be used as a tool of the audit committee to decide which areas are scheduled for internal audit services.

A staff accountant conducted telephone interviews and electronically gathered data and pertinent information necessary for completing the District's risk assessment. Based on our professional judgment, knowledge and experience, our risk assessment approach and methodology consisted of inquiry, inspection and observation. Also, when useful, we applied analytical procedures and performed limited tests of controls, if feasible. We utilized specific audit programs, questionnaires and checklists designed for risk assessment as our principle tools in developing the areas of focus and the related risks.

During our review, we interviewed District employees, inspected an assortment of transactional documentation, accounting reports and electronic files, and reviewed the Board of Education policies and minutes of the District relating to financial activities.

Initially we read, reviewed and analyzed the Board of Education policies and minutes to establish our perspective regarding the District's approach to governance and control environment. This perspective was further developed in conjunction with the control procedures established, required and monitored.

We made inquiries of various members of the District's management, as well as employees in the Business Office. From those inquiries we were able to document the responses and obtain information useful in assessing risk.

We inspected a variety of source documentation pertaining to bank accounts, cash receipts, cash disbursements, fixed assets, payroll, personnel, cafeteria operations and extraclassroom activities. Additional items inspected included monthly accounting and budgetary reports as well as annual external audit reports and findings. The objective of these inspections is to verify and corroborate the information obtained from inquiries with District personnel. This process helps to identify possible discrepancies between policy and practice and further develop our understanding of the fiscal controls in operation and their effectiveness.

Education Law Section 2116-b of the laws of the State of New York require the establishment and operation of an internal audit function. The law specifies that the internal audit function include three phases. These required phases are as follows:

- 1) Development of a risk assessment
- 2) Preparation of reports, at least annually, analyzing significant risk assessment findings with recommendations and implementation time frames
- 3) Annual review and update of the risk assessment

The presentation of this risk assessment completes the first phase of the audit committee's responsibilities surrounding the internal audit function. Once the audit committee has reviewed this report, the committee will need to select which of the audit areas will be subjected to internal audit and the timing of the internal audit procedures in the upcoming year. Although the law requires analyzing significant risk assessment findings, we recommend that an internal audit plan be developed and adopted addressing all potential areas of risk to the District. We understand that you are not necessarily trained as auditors and we would be pleased to meet with you, address any questions you may have and help direct you through the process. However, please be advised that it is the audit committee's responsibility to make the recommendations to us as the internal auditor for the work that you want performed in the chosen areas of risk. We will also be available to meet with your external auditors to discuss the audit areas that are ultimately covered by the internal audit procedures including findings and recommendations.

An integral part of the risk assessment is internal control over financial reporting. Internal control over financial reporting consists of five interrelated components. These components and a brief description are as follows:

- 1) Control Environment—The core of any entity is its people—their individual attributes, including integrity, ethical values and competence—and the environment in which they operate. They are the engine that drives the entity and the foundation on which everything rests.

- 2) Risk Assessment—the entity must be aware of and deal with the risks it faces. It must set objectives, integrated with the administration, financial, operational and other activities so that the entity is functioning in concert. It also must establish mechanisms to identify analyze and manage the related risks.
- 3) Control Activities—Control policies and procedures must be established and executed to help ensure that the actions identified by management as necessary to address risks to achievement of the entity’s objectives are effectively carried out.
- 4) Information and Communication—surrounding these activities are information and communication systems. These enable the entity’s people to capture and exchange the information needed to conduct, manage and control its operations.
- 5) Monitoring—the entire process must be monitored, and modifications made as necessary. In this way, the system can react dynamically, changing as conditions warrant.

The overall risk assessments are the product of evaluating the above internal control components and several different types of risks applicable to the audit areas. The different types of risk considered include the following:

- 1) Inherent Risk – The susceptibility of an area to a material misstatement, assuming that there are no related internal controls.
- 2) Control Risk – The risk that a material misstatement that could occur in an area will not be prevented or detected on a timely basis by the District’s internal controls.
- 3) Fraud Risk – The susceptibility of an area to fraud including theft, misappropriation and/or financial reporting.
- 4) Other Risk – The additional risk impact to an area based on professional judgment given the District’s specific fact, circumstances and practice.

The following table illustrates the internal audit risk areas and our resulting risk conclusion by area. An area classified as high risk is an area where fraud is most likely to occur, based on the types of transactions and dollar amounts involved. There are certain areas that are inherently high and as such are unlikely to change. This is not to say that the District does not have internal control procedures in place, but as with all entities, changes occur and require modifications to the existing internal controls. The internal audit function serves as a review of controls and assists management in reporting on areas that may need additional mitigating controls implemented. A high-risk classification will require internal audit services to be performed on the area even with strong internal controls in place.

Internal Audit Area	Risk Assessment	
	Current	Previous
1. Budgeting, Financial Accounting & Reporting • Positive tone at the top • Competent Management & high level of oversight • Segregation of duties over financial and accounting responsibilities • Increased budgetary pressures resulting from property tax cap	Moderate	Moderate
2. Debt, Cash and Investments • Regular monitoring of cash balances by Senior Management • Minimal Investments as rates of return are low • Segregation of duties with regards to bank recs, deposits, etc.	Low	Low
3. Cash Receipts/Revenue and Accounts Receivable • Largest revenue of the District: property taxes are collected by the Town • Second largest revenue is State Aid which is received via electronic deposits • Regular monitoring of incoming deposits by Treasurer • Last audited April 2019 – Satisfactory Rating • Receipt of Cash down due to Covid-19	Moderate	Moderate
4. Purchasing and Accounts Payable/Cash Disbursements • Nature and volume of transactions • Complexity involved with contracts, bidding & RFP processes • Segregation of duties • Internal Claims Auditor reviews all warrants • New staff and changes in positions • Changes to processes and procedures	High	Moderate
5. Payroll and Personnel • Nature and volume of transactions (largest expense of the District) • Sensitive information • Complexity involved with contracts, agreements, laws and regulations • WinCap Web time keeping system Audited May 2022 – Satisfactory Rating • Segregation of Duties	High	High
6. Facilities Maintenance • 5-year facilities plan in place • Building Condition Surveys conducted	Low	Low
7. Capital Projects • Management oversight • Ongoing Capital Projects from prior years	Moderate	Moderate

8. Fixed Asset Inventory and Controls • Outside vendor hired to maintain fixed asset appraisal and depreciation reports • Physical inventory conducted of all District assets every five years. Last conducted April 2022. • Technology equipment is tracked using Microsoft SSDM	Moderate	Moderate
9. Cafeteria Area • 13 individual locations where cash is collected. Funds are deposited by Accounts Payable clerk twice per week • Collection of Cash significantly down due to students receiving free meals • Segregation of duties • Susceptibility to fraud	Moderate	Moderate
10. Extraclassroom Activity Funds • Nature and volume of transactions • Susceptibility to fraud • Due to COVID-19, activity in the current fiscal year is still limited • Area audited May 2016 and October 2017- Acceptable Rating • External Audit Management Letter comments prior two years related to cash disbursement, cash receipts and club balance issues.	High	High
11. Student Transportation • District does maintenance on fleet of vehicles • Above ground fuel tank with electric gauge • NYS DOT inspection of vehicles • 5-year cycle for replacement of aging vehicles.	Moderate	Moderate
12. Information Technology • Disaster Recovery Plan in place • Passwords require change on a regular basis • Help desk is run using School Dude • Risks related to viruses, etc. • Area audited by prior internal auditor in 2012	Moderate	Moderate
13. Retiree Benefits • Area audited in May 2018 – Acceptable Rating • Recommendations were implemented since last audit	Moderate	Moderate
14. District Daycare • Follow District procedures for cash receipts and disbursements • Segregation of Duties • Last audited in February 2021 – Satisfactory Rating	Low	Low

Of the fourteen internal audit areas presented for risk classification, three areas are determined as High, eight areas determined as Moderate, and three areas as Low risk. The areas that we have classified as High risk suggest that these areas have the highest potential for misstatement and/or fraud.

There are three high risk areas, Purchasing and Accounts Payable/Cash Disbursements, Payroll & Personnel and Extraclassroom Activity Funds. Payroll & Personnel was recently audited and there was limited activity within the Extraclassroom Activities Funds in the past year due to Covid-19. Because of the recent audit of a payroll related area and the limited activity within the Extraclassroom activities, we recommend that the internal audit focus on the Account Payable/Purchasing area due to the fact that it has not been audited in recent years and there has been position changes and turnover in staff, as well as changes in processes and procedures. Another option would be a more specific area such as, a review of the financial information available on the District's website to ensure that the public has been provided with transparent and comprehensive financial information.

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

Respectfully Submitted,


NUGENT & HAEUSSLER, P.C.