



William Floyd School District

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

June 2020

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

The Board of Education
William Floyd School District

We have performed the procedures enumerated below, which were agreed to by the William Floyd 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 2019 Risk Assessment by performing certain internal audit procedures pertaining to the time period starting July 1, 2019 through June 30, 2020. The updated Risk Assessment and related internal audit plan concentrates on the following key internal control areas:

- Governance and Planning
- Budget Development
- Accounting and Reporting
- Revenue and Cash Management
- Grants
- Payroll
- Human Resources
- Benefits
- Purchasing and Related Expenditures
- Facilities Maintenance
- Capital Projects
- Fixed Assets
- Food Service
- Extraclassroom Activity Fund
- Information Systems
- Cybersecurity
- Student Data Management
- Pupil Personnel Services
- Transportation
- Security and Safety
- Insurance / Risk Management

Our engagement is limited in scope and will be confined to our agreed-upon procedures. We will not be conducting an audit or review of the district's financial statements and therefore we will not express an opinion or any other form of assurance on them.

At the end of our engagement, we will present the results of applying the agreed-upon procedures in the form of our findings in a report. Our accountants' report should be used only for the intent of the original users of this report and will include a statement indicating that had we performed additional procedures, other matters might have come to our attention that would have been reported to you. As such, using this report for anything other than the original intent of the agreed-upon procedures could mislead the readers. You must notify us immediately if the original users of the report change.

Very truly yours,

Nawrocki Smith LLP
October 14, 2020



William Floyd School District

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Pertaining to the Internal Controls
of District Operations

June 2020

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RISK ASSESSMENT OVERVIEW

This Risk Assessment report provides a presentation of our view of the William Floyd 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 risks 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 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 and 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 and qualify 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 twelve months ending June 2020 and were carried out in order to determine an internal audit plan for fiscal year 2020/2021 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 twenty-one (21) Business Process areas within the District and have developed an internal audit plan based upon our assessment of each area. Each of the twenty-one (21) 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 annual risk assessment update and events/requests that occur during the year which impact the priority of future internal audit services.

The results of our risk assessment update are summarized below and, in the tables, presented on pages 5 through 7. We have utilized a “Low,” “Moderate,” and “High” control risk rating assessment scale of the organization.

<u>CURRENT YEAR RATINGS</u>		<u>CHANGE FROM PRIOR YEAR</u>	
<u>Rating</u>	<u>2019/2020</u>	<u>Category (*)</u>	<u>Count</u>
High	- 0.00%	“High” to “Low”	- 0.00%
Moderate	4 4.35%	“High” to “Moderate”	- 0.00%
Low	88 95.65%	“Moderate” to “Low”	1 33.33%
Total	92 100.00%	“Low” to “Moderate”	2 66.67%
		“Moderate” to “High”	- 0.00%
		Total	3 100.00%

Our June 2020 risk assessment update contains six (6) recommendations, as follows:

<u>Business Process</u>	<u>Ratings</u>			<u>Total</u>	<u>Recommendation(s)</u>
	<u>Low</u>	<u>Moderate</u>	<u>High</u>		
Governance & Planning	1	-	-	1	4
Human Resources	-	1	-	1	1
Cybersecurity	-	1	-	1	1
Total	1	2	-	3	6

The District has completed or taken action on the nine (9) prior risk assessment report recommendations as follows:

	<u>Complete</u>	<u>In-Process</u>	<u>Not Started</u>	<u>Total</u>
Recommendations	3	5	1	9

We have summarized below the areas we recommend the District consider for the selection intensive cycle analysis to be performed during the fiscal year 2020/2021:

<u>Cycle Reviews:</u>	<u>Other 2020/2021 Planned Internal Audit Services:</u>	
• Payroll	• Key Control/Other Testing (See “T” categories on Pages 5-7)	• External Audit Corrective Action Plan Monitoring
• Student Data Management	• Transportation Cycle Recommendations Follow Up	• Annual Risk Assessment Update as of June 2021
	• Employee Credentials Recommendations Cycle Follow Up	• Other Internal Audit Services at the Request of the District/BOE
	• Conflict of Interest Cycle Recommendations Follow Up	•

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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			YEAR OF SERVICE		
			Inherent	Control		Prior	20-21	Subsequent
				18-19	19-20			
1	Governance and Planning	1 Governance Environment	H	L	L			X
		2 Control Environment / Policies & Proc.	H	L	M	★		X
2	Budget Development	3 Budget Development	H	L	L			X
		4 Budget Monitoring & Reporting	H	L	L	√		X
3	Accounting & Reporting	5 Financial Accounting and Reporting	H	L	L	√		X
		6 External/Internal/Claims Auditing	H	L	L	√		X
		7 Fund Balance Management	H	L	L	★		X
4	Revenue and Cash Management	8 Real Property Tax	M	L	L	★		
		9 State Aid	H	L	L	★		
		10 Out of District Tuition/Reimb. Exp.	M	L	L	★		
		11 Use of Facilities	L	L	L	★		
		12 Donations	M	L	L	★		
		13 Vending Machines	H	L	L	★		
		14 Cash Receipts	H	L	L	★		
		15 Cash & Investment Management	H	L	L	★		
		16 Petty Cash	L	L	L	★		
		17 Bank Reconciliations	H	L	L	★		
		18 Online Banking	H	L	L	★		
19 Accounts Receivable	H	L	L	★				
5	Grants	20 General Processing	H	L	L	★		
		21 Grant Application	M	L	L	★		
		22 Allowable Costs & Expenditures	H	L	L	★		
		23 Monitoring	M	L	L	★		
		24 Reporting	H	L	L	★	T	
6	Payroll	25 Payroll Disbursements	H	L	L	★	X	
		26 Overtime Reporting	H	L	L	★	X	
		27 Payroll Accounting & Reporting	H	L	L	★	X	
		28 Payroll Tax Filings	H	L	L	★	X	
		29 Payroll Reconciliation	H	L	L	★	X	
7	Human Resources	30 Employment Requisition/Hiring	H	L	M	★		
		31 Personnel Evaluation	H	L	L	★	T	
		32 Termination	H	L	L	★		
		33 Employee Attendance	H	M	M	★		

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Risk Rating and Internal Audit Plan (Continued)

√ = Internal Audit Services Provided	X = Proposed Business Cycle Review
★ = Business Cycle Review Complete	T = Limited Testing of Business Process

	Business Process	Business Process Categories	RISK			YEAR OF SERVICE		
			Inherent	Control		Prior	20-21	Subsequent
				18-19	19-20			
8	Benefits	34 Eligibility	H	L	L	★	T	
		35 Benefit Calculations	H	L	L	★		
		36 Patient Protection & Affordable Care Act	H	L	L	★		
		37 Retiree Benefits	H	L	L	★		
		38 ERS/TRS	H	L	L	★		
9	Purchasing and Related Expenditures	39 PO System & Vendor Database	H	L	L	★		
		40 Purchasing Process	H	L	L	★		
		41 Payment Processing	H	L	L	★		
		42 Employee Reimbursements	H	L	L	★		
		43 Credit Cards	H	L	L	★		
10	Facilities Maintenance	44 Facilities Maint. & Work Order Proc.	H	L	L	★		X
		45 Staff Supervision	M	N/A	L			X
		46 Preventive Maintenance	M	N/A	L		T	X
		47 Coordination with Outside Vendors	M	N/A	L			X
11	Capital Projects	48 Construction Planning & Monitoring	H	L	L	★		
		49 Capital Project Funding & Payments	M	L	L	★		
		50 Recordkeeping & Reporting	M	L	L	★	T	
12	Fixed Assets	51 Inventory/ Capitalization Policy	H	L	L	★		
		52 Acquisition and Disposal	H	L	L	★		
		53 Inventory Process & Recordkeeping	H	L	L	★		
13	Food Service	54 Sales Cycle and System	M	L	L	★		
		55 Inventory and Purchasing	M	L	L	★		
		56 Free & Reduced Meals	M	L	L	★		
		57 Federal and State Reimbursement	H	L	L	★		
		58 Financial Reporting & Monitoring	H	L	L	★		
14	Extraclassroom Activity Fund	59 General Controls	H	L	L	★		
		60 Revenue	H	L	L	★		
		61 Expenditures	M	L	L	★		
		62 Reporting	M	L	L	★		

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Risk Rating and Internal Audit Plan (Continued)

√ = Internal Audit Services Provided	X = Proposed Business Cycle Review
★ = Business Cycle Review Complete	T = Limited Testing of Business Process

	Business Process	Business Process Categories	RISK			YEAR OF SERVICE		
			Inherent	Control		Prior	20-21	Subsequent
				18-19	19-20			
15	Information System	63 Governance	H	L	L	★		
		64 Inventory	H	L	L	★		
		65 Network Security	H	L	L	★		
		66 Application Security	H	L	L	★		
		67 Physical Security	H	M	L	★		
		68 Disaster Recovery	H	L	L	★		
16	Cybersecurity	69 General Controls	H	L	L			X
		70 Information & Asset Security	H	L	L	★		X
		71 Vulnerability Assessment	H	M	M			X
		72 Incident Response & Recovery	H	L	L			X
17	Student Data Management	73 Registration & Enrolment	H	L	L	√	X	
		74 Student Attendance	H	L	L		X	
		75 Student Performance	H	L	L		X	
		76 Student Eligibility	H	N/A	L		X	
18	Pupil Personnel Services	77 Budgeting and Planning	H	L	L	★		
		78 STAC Reimbursement	H	L	L	★		
		79 Medicaid Reimbursement	H	L	L	★		
		80 RFP and Contracts	H	L	L	★		
19	Transportation	81 Fleet Inventory and Maintenance	H	L	L	★		
		82 Bus Routing and Planning	H	L	L	★		
		83 Labor and Supervision	H	L	L	★		
		84 Contract Management	H	L	L	★		
		85 Federal and State Reimbursement	H	L	L	★		
20	Safety & Security	86 Plan Development & Strategy	H	L	L	√		X
		87 Building Access & Security System	H	L	L			X
		88 Compliance and Incident Reporting	H	L	L	√		X
		89 Safety & Security Monitoring	H	L	L		T	X
21	Insurance / Risk Management	90 Actuary & Underwriting	H	N/A	L			X
		91 Policy Management	H	N/A	L			X
		92 Claims Reporting	H	N/A	L			X

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Inherent Risk - Inherent risk pertains to the overall school district industry. Inherent risk is the risk of a material misstatement may occur assuming the absence of internal controls.

Control Risk - Control risk pertains specifically to the William Floyd School District. Control risk is the risk that a material misstatement will not be detected and corrected by Management's internal controls on a timely basis.

RISK ASSESSMENT OBSERVATIONS AND RECOMMENDATIONS

Current Year Observations and Recommendations

Governance and Planning

1. The District's employee related party disclosure form does not provide a section for the employee to document his/her address and phone number for the Human Resource Department cross reference to the District's vendor database.

➤ *The Human Resource Department should update the existing Employee Related Party Disclosure Form to include a section for the employees to document his/her address and phone number for the Human Resource Department to cross reference to the District's vendor database. This will assist the District to capture as much information as possible to identify a potential conflict of interest.*

2. Based on our analysis of the contents of the District's vendor related party disclosure form we noted the following:

- The vendor related party disclosure form does not provide the District's definition of a related party.
- The vendor related party disclosure form references Policy 5421 that does not exist in the Board of Education Policy Manual.
- The vendor related party disclosure form does not provide a section for the vendor to document the name, address, phone number, and relationship of possible related parties.
- The Business Office maintains the initial vendor related party disclosure forms with the vendor contracts. The Business Office does not request its vendors to submit this information annually as required per the vendor related party disclosure form.

➤ *The Business Office should update the existing Vendor Related Party Disclosure Form to include the following:*

- *A reference to Policy 6110 regarding the definition of a related party and the disclosure of conflicts of interests.*
- *A section for the vendor to document the name, address, phone number, and relationship with related parties to assist the District in analyzing potential conflicts of interests.*

The Business Office should remove the reference to Policy 5421 from Vendor Related Party Disclosure Form. The Business Office should consider either updating the Vendor Related Party Disclosure Form to request its vendor to submit this form upon their initial engagement or developing a process to obtain these forms as originally instructed.

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3. Based on our analysis of the District's data collection, recordkeeping, and monitoring process of related party disclosures we noted that the District does not maintain an electronic database to analyze the employee or vendor related party disclosures for potential conflicts of interest. The District does not provide the Board of Education with an executive summary of possible conflicts of interests as required per Policy 6110 – Code of Conduct. It is current practice that the District submits, in November of each year, all annual employee related party disclosure forms to the Board of Education for their review.

- *The District should maintain a standardized database (i.e. Excel spreadsheet) indicating the first and last name of the employee or vendor, their address, phone number, the name of related party or organization, and their relationship (e.g. family or vendor). As an alternative, the District should consider developing an electronic online form (e.g. Google or Office 365 Forms) for employees and vendors to complete and submit annually for review. The online forms should have validation controls for incomplete responses. The responses from the online forms should be automatically collected and integrated into a spreadsheet in a standardized format. Nawrocki Smith will assist the District in the setup and utilization of these new on-line forms and integration.*

The District should consider having its Internal Auditors analyze the related party disclosure forms for all new employees prior to hiring and annually for all existing employees. This analysis should include a cross reference to the related party disclosure database and a review of the employee/vendor information for possible duplicate last names, addresses, phone numbers that may indicate a possible conflict of interest. Based on the results of the analysis, an executive summary should be prepared and submitted to the Human Resource Department, Business Office, and the Board of Education

4. The District relies on a manual workflow process to request and approve budget transfers, journal entries, employee onboarding, employee attendance, payroll timesheets, free and reduced meal applications, extracurricular activities, and student grade changes. As the District is practicing social distancing due to the COVID-19 pandemic, the manual workflow process increases the risk for the request and approval process to be delayed and for certain transactions to become undetected.

- *As many District employees are working on a remote basis, the District should consider in developing an automated workflow process for the transactions that currently require physical forms or documents to document their requests and approvals. The electronic workflow system should automatically route the request for approval and collect all required documents and attachments to the designated approver every time. Audit logs should be developed to capture the details of the transactions including the individuals requesting and approving the transactions for further review by Management and Auditors. This will assist the District in maintaining an efficient workflow management process, processing transactions in a timely manner, and increasing accountability of the requestors and approvers.*

Human Resources

5. The Human Resource Department has not developed a process to include all certification requirements on the open position job postings and does not maintain the position advertisements within the employee personnel files. The evaluation of certification requirements for any position is based on verbal guidelines and past practice recollection from the current Administration.

- *The Human Resource Department should include all certification requirements within the job posting. The Human Resource Department should also maintain the job postings and*

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advertisements within the employee’s personnel files. This will reduce any misunderstandings between the District and future candidates in respect to the position requirements and will assist in documenting the history of certification requirements for each position.

6. The employee personnel files did not contain fingerprint clearance for employees hired prior to 2001. It was represented that employees hired prior to 2001, were not required to obtain fingerprint clearance.
- *The District should consider reviewing the personnel files for all active employees hired prior to 2001 and obtain fingerprint clearances for those who have not obtained one. This will ensure that the District is following a consistent process when conducting background checks.*

Cybersecurity

7. The Information Technology Department does not conduct penetration tests to identify potential vulnerability within the District’s network. The lack of penetration tests is a risk as the Information Technology Department may not be aware of the existence of security weaknesses.
- *The Information Technology Department (or qualified vendor) should conduct penetration tests to circumvent the security features of a system and exploit vulnerabilities to gain unauthorized access. This is an effective way for the District to identify the real-time risks to a network security environment.*

Status of Prior Year Recommendations

We have performed follow-up internal audit services applicable to our previously issued risk assessment update report dated June 2019. The services we performed included observing and evaluating the implementation status of the District’s action plan in respect to our prior risk assessment recommendations. The June 2019 risk assessment update identified nine (9) recommendations within one (1) distinct area. The District has completed or taken action on the nine (9) recommendations as follows:

<u>Business Process</u>	<u>Complete</u>	<u>In-Process</u>	<u>Not Started</u>	<u>Total</u>
Purchasing & Related Expenditures	3	5	1	9
Total	3	5	1	9

Purchasing & Related Expenditures

- The District should consider removing the permissions to convert requisitions to purchase orders from the Accounts Payable Clerk limit such access to the Purchasing Agent and Deputy Purchasing Agent. This will prevent the Accounts Payable Clerk from generating purchase orders and will ensure the segregation of duties in the purchasing and accounts payable functions.

Status as of June 2020: In-Process

- All purchases should be subject to the encumbrance process and be created and approved by the Purchasing Agent. Confirming purchases should be supported by a memorandum or letter justifying the circumstances and need to issue a confirming purchase order.

Status as of June 2020: In-Process

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- The District should consider the cost-benefit options of having the building level Secretaries utilizing the nVision receiving module to document the goods received directly in the system. This will assist the Business Office in confirming efficiently the receipt of goods and making accurate and timely payments.

Status as of June 2020: Not Started

- The District should cancel with a “paid” stamp an invoice upon payment. This control will assist in the prevention of making duplicate payments.

Status as of June 2020: Complete

- The District should limit the check signing authority to the District Treasurer. It is also recommended that the District consider appointing a Deputy District Treasurer separate from the Accounts Payable Clerk to sign checks in the absence of the District Treasurer. Segregating check preparation and check signing from the preparation and approval of claims prevents an employee from making improper purchases, approving them for payment, and then preparing the check to pay for such purchases without being detected.

Status as of June 2020: In-Process

- The District should keep blank checks and check stock secure at all times. Securing blank checks and check stock in a locked environment helps prevent their misuse.

Status as of June 2020: Complete

- The Claims Auditor is appointed by the Board of Education and is responsible for reporting to the Board of Education any findings or concerns that they may have. It is recommended that the Claims Auditor formally report to the Board of Education on a periodic basis and that their reports be formally approved by the Board of Education. Review and acceptance of the Claims Auditor Reports should be documented in the Board of Education meeting minutes. This will provide proof of receipt and review by the Board of Education.

Status as of June 2020: In-Process

- The District should explore the application capabilities in nVision for generating automatic vendor edit reports pertaining to vendor name changes. The Purchasing Agent should review and sign off on the above reports on a monthly basis. This control will assist in ensuring the accuracy and completeness of the vendor database and applicable payments.

Status as of June 2020: In-Process

- The user permissions of the Assistant Superintendent for Secondary Education should be limited to view only access. The user permissions to print and reissue checks should be limited to the District Treasurer. The user permissions of the Purchasing Agent should be limited to the requisition and purchasing modules of nVision. The Business Office should periodically review the permissions user account report and verify the appropriateness of user accounts and permissions on an individual employee basis. This recommendation will assist the Business Office in increasing its oversight and controls over its access to the District’s accounting system.

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Status as of June 2020: Complete

EXHIBITS

Exhibit I History of Internal Audit Work Performed

Exhibit II Internal Audit Plan for 2020/2021



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2020/2021 INTERNAL AUDIT PLAN

(Based upon June 2020 Risk Assessment Update)

Exhibit II

Cycle Reviews

Status

- Payroll
- Student Data Management

**Planned for Oct 2020
Commencement TBD**

Key Control Testing Areas

Status

- Grants Reporting
- Personnel Evaluation
- Benefits Eligibility
- Facilities- Preventative Maintenance
- Capital Projects- Recordkeeping & Reporting
- Safety & Security Monitoring

**Planned for Jan 4 - 8, 2021
Planned for Jan 4 - 8, 2021
Planned for Jan 4 - 8, 2021
Planned for Jan 4 - 8, 2021
Planned for Jan 4 - 8, 2021
Planned for Jan 4 - 8, 2021**

Additional Internal Audit Services

Status

- Annual Risk Assessment Update as of June 2020
- Retirement and Severance Payout Monitoring
- External Audit 19/20 Corrective Action Plan Monitoring
- Conflict of Interest Cycle Recommendations Follow Up
- Employee Credentials Cycle Recommendations Follow Up
- Transportation cycle Recommendations Follow Up
- Annual Risk Assessment Update as of June 2021
- Other Internal Audit Services at the Request of the District

**Draft Complete
As Requested
Planned for Jun-21
Planned for Jun-21
Planned for Jun-21
Planned for Jun-21
Planned for Jun-21
As Requested**