



a community for learning

Chappaqua Central School District

**Updated Risk Assessment Report
Covering the State mandate for the year ending June 30, 2016**

Chappaqua Central School District

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TOBIN & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS, PC

To the Board of Education of the
Chappaqua Central School District
Chappaqua, New York

We have performed an update to our Risk Assessment report, dated September 16, 2014 of the Chappaqua Central School District (the District). The purpose of this engagement is to ensure compliance with applicable New York State laws and regulations under the Fiscal Accountability Initiative for the fiscal year ending June 30, 2016.

Our report updates the risk assessment scores and levels of the different processes of the District, and highlights any improvement changes or weaknesses in internal controls noted since the last risk assessment report. This report also provides a recommended area where an in-depth review should be performed.

We are pleased to have had the opportunity to serve you and look forward to reviewing this report in detail with you. We would also like to thank the Board of Education and the employees of the Chappaqua Central School District for their time and assistance during our engagement.

Sincerely,

Tobin & Company
Certified Public Accountants, PC

Purchase, New York
August 31, 2015

Chappaqua Central School District

Executive Summary

The District has continued to maintain good overall procedures and strong internal controls over its operational activities. Since our last review, the District has implemented several changes from the previously issued risk assessment reports. Below is a summary of our observations.

Notable improvements to internal controls and procedures since the last risk assessment:

- 1) The Payroll Clerks cross enter each other's overtime hours and vacation time in Finance Manager.
- 2) Buildings and Grounds has increased its use of School Dude to track work orders.
- 3) Facilities usage billing is now done quarterly instead of annually.
- 4) Certain buildings are closed after school hours. After school activities are funneled to designated buildings.
- 5) The collection process for retiree insurance contribution payments has been segregated. The payments are now received by the Treasurer.
- 6) The vendor list in Finance Manager has been recently updated to remove old inactive vendors.

Summary of *newly* noted areas for potential improvement:

- 1) The District should consider having the Payroll Clerks document their process and adopt one unified set of processes to be followed consistently.
- 2) There is no independent review of the attendance entry or annual paid time off ("PTO") rollover.

Summary of *previously* noted areas for potential improvement

- 1) The District should consider utilizing the positive pay feature with its financial institution.
- 2) District does not utilize My Learning Plan to its full capabilities.
- 3) The process for annual salary rollover is manual due to the various special contract situations. With the transition from Finance Manger to Nvision, the District should inquire whether the process can be automated.

Chappaqua Central School District

Risk Assessment Overview

At the request of the Board of Education of the Chappaqua Central School District "the District" we have performed a Risk Assessment of several areas. Our assessment includes an analysis of business procedures and activities. The risk assessment considered qualitative, quantitative, technological, and human elements of the District's operations.

During our engagement we performed the following procedures:

- We interviewed key personnel, including top administration, mid-level management, and business office employees.
- We evaluated forms and documentation used in the daily business processes.
- We evaluated internal controls, policies and procedures.
- We evaluated technology used by the District as well as the security of the technology.
- We prepared flowcharts for key operational areas.
- We reviewed the audit reports from The District's External Auditors.

During our engagement we interviewed the following key personnel:

Dr. McKay, *Superintendent of Schools*

John Chow, *Assistant Superintendent for Business*

Blanche Blair, *Assistant Business Manager/District Treasurer*

Michael Trnik, *Purchasing Agent*

Joseph Gramando, *Director of Facilities*

Darleen Nicolosi, *Director of Instructional Technology*

Vincent Savino, *Health Benefits*

Deirdre McManus, *Director of Food Service*

Kusum Sinha, *Assistant Superintendent of Human Resources*

Alex Djordjevic, *Accountant*

Suzann Schriro, *Payroll Clerk*

Margaret Ryan, *Payroll Clerk*

Christine Brundage, *Accounts Payable Clerk*

Pam Tole, *Free/Reduced lunch*

Claudine Howson, *Accounts Payable*

Chris Weir, *Claims Auditor*

Liisa Elsner, *Registrar, Business Office Assistant*

Seth Corwin, *Chappaqua Transportation*

Chappaqua Central School District

Explanation of Risk Ratings

The risk assessment quantifies scores in various areas of the operations of the District. The scores determine if a particular area is graded low, medium, or high risk. The following illustrates the range of possible scores:

Low Risk	21 - 49
Medium Risk	50 - 77
High Risk	78 - 105

Risk levels were assigned to each area based on six key variables.

- 1) *Dollar Volume* - The higher the dollar volume, the higher the value assigned.
- 2) *Adequacy of Personnel* - Values assigned depend on personnel having proper qualifications, and that there is enough staff to perform proper internal controls.
- 3) *Complexity of Activity* - Different reviewed areas are more complicated and allow more opportunities for fraud or misappropriations.
- 4) *Management Interest* - If management places a priority, or expresses interest in a particular area, it is awarded a higher risk value to ensure that attention is paid to that area.
- 5) *Adequacy of Procedures* - If there are proper procedures that are understood and followed, risk levels are significantly reduced.
- 6) *Adequacy of Internal Controls* - Lack of controls could mean that procedures are not followed correctly, increasing risk levels.

In order to calculate the Risk Score for each reviewed area, we have to determine the risk level for each variable. The following is an illustration of the calculation which assigns risk scores to each variable:

A = Rank - Each variable is ranked in order of its importance from 1-6 (6 being most important).

B = Descriptive Value - Each variable is scored with a value from 1-5 (5 being highest risk) depending on our findings for that particular area.

A x B = Weighted Value - Calculated by multiplying each Variable's rank by its descriptive value.

When we have computed a score for each variable, they are totaled giving us the Total Risk Score for the reviewed area being evaluated.

**It should be noted that not all of these variables can be controlled by the District. For instance, the dollar volume for receipts, payables, and payroll will always be high. Therefore, even with perfect controls these areas would not be considered low risk. This should be taken into consideration when reading the results of our scoring.*

Chappaqua Central School District

Risk Ratings - Results

In the illustration below we list each operational area, its previous assigned risk score, and the updated risk score, and level.

	Initial	Previous		
	Risk	Risk	Current Risk Score	
Area of Review	Score	Score	Score	Level
Revenue and Receipts	65	65	65	Medium
Transportation	65	65	65	Medium
Human Resources and Payroll	70	65	65	Medium
Purchasing and Payables	70	61	61	Medium
Benefits	56	58	58	Medium
Information Technology	64	56	56	Medium
Food Service	60	51	51	Medium
Student Services	60	51	51	Medium
Facilities and Operations	67	47	47	Low
Vending Machine Services	-	45	45	Low

Below is the history of previously completed intensive reviews as well as our recommendation for the next area to be reviewed:

Area of Review	Intensive Review History	Next Area
Human Resources and Payroll	Completed- 6/30/2012 & 6/30/2015	
Facilities and Operations	Completed- 6/30/2014	
Information Technology	Completed- 6/30/2013	
Vending Machine Services	Completed- 6/30/2012	
Purchasing and Payables	Completed- 6/30/2011	
Food Service	Completed- 6/30/2010	
Student Services	Completed- 6/30/2009	
Benefits		<i>Recommended</i>

Chappaqua Central School District

Summary of Reviewed Areas

Revenue and Receipts - Risk Score: 65

When reviewing the District's procedures in this area, we review different methods in which money is received and how it is recorded, the revenue sources, and how money is moved from one account to another. Our review revealed the existence of good overall internal controls, proper reviews and sign offs.

Although there is a high dollar volume in this area as well, receipts were assessed a *Medium Risk* level due to good overall procedures, and internal controls.

Current Assessment –Overall, the District has good internal controls over the receipt of funds and the protection of money. The risks of cash misappropriation are low, due to the minimal amount of cash received. The procedures for revenue receipt, bank reconciliations, transfers, budgeting and reporting are all segregated. This area's risk score is primarily affected by its monetary size and nature and therefore difficult for the risk level to ever reach a low rating. The Risk Level remains at *Medium*.

Human Resources and Payroll - Risk Score: 65

Payroll is an area in which the high dollar volume in relation to the District budget inherently makes it a "higher risk" area. Payroll is also an area that is generally susceptible to fraud. These two factors make it difficult for the risk level in this area to ever be rated low, regardless of the controls in place.

Significant Internal Control changes made since the last risk assessment report:

- 1) In the event a Payroll Clerk earns overtime or has an absence, the second Payroll Clerk will either enter that information in Finance Manager or review the input. This process ensures a Payroll Clerk does not independently enter their own information with no review.

New and previously reported Observations and Recommendations:

- 1) Observation (NEW): As found in many school districts, the District has two Payroll Clerks who perform different sections of the payroll process. Both of the Payroll Clerks are crossed trained in the other's function. However, there is no formal written process for either payroll function.

Recommendation: While we did not note any significant weakness in the current process, the District should consider having the payroll clerks document their process and form one set of uniform procedures. This will ensure the same process is followed by a substitute in the event of a long absence or new hire.

- 2) Observation (NEW): The Payroll Clerk is responsible for entering and maintaining attendance in Finance Manager. She is also responsible for rolling over the attendance at the beginning of the school year. There is no independent review of the attendance.

Recommendation: The District should consider designating a person to independently review the employee accrued time off rollover schedule at the beginning of the school year. This would help ensure the accrued time off is rolled over from one year to the next accurately. The District may also consider having an independent person perform spot checks of the employee attendance schedules on a periodic basis.

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Summary of Reviewed Areas

Human Resources and Payroll (continued)

- 3) Observation: The District does not utilize My Learning Plan software to its full capabilities.
Recommendations: The District uses My Learning Plan to register for in-service credits as well as BOCES courses. A large part of My Learning Plan is its ability to track all credits and submit courses for approval. The District should consider taking advantage of this capability to replace the current manual tracking system.
- 4) Observation: The annual salary rollover is done manually and given to the Payroll Department for entry. The manual process is partially due to the various special contract pay stipulations that complicate the salary rollover. While we did not note any significant weakness in the current process, the District should consider automating the process where possible.
Recommendation: The District will be transitioning from Finance Manager to the Nvision accounting software package. The District should inquire whether the process can be automated through the software. It should be noted each time a special contract adjustment is made it increases the complexity of processing payroll. The complexity of the process rises, so does the potential risks for error. The District should consider the effects of these special contract agreements on the operational processes. We also recommend the business office continue its review of the salary rollover calculation performed by the Human Resource Department.

Current Assessment

The District continues to maintain good procedures and strong internal controls over this area. The Payroll Clerks are knowledgeable about the various payroll contracts and are diligent in the payroll process. We have performed an intensive review in this area and our report dated November 25, 2014 noted good controls and some areas for potential improvement. The District has implemented most of those recommendations.

The most significant change in this area from the last review was the hiring of a new Assistant Superintendent of Human Resources. Change can sometimes provide a fresh perspective and new set of ideas. During our review, we noted some of those potential areas of improvement on the table for discussion. While change generally can be good, we recommend the District maintain the core procedures and internal controls that are currently in place.

Due to this area's nature, complexity and monetary size, it is difficult for the risk level ever to fall below medium. The Risk level of *Medium* is unchanged.

Purchasing and Payables - Risk Score: 61

Purchasing and Payables is another significant operational area of the District. The District follows New York State purchasing regulations and has an independent Certified Public Accountant serve as its internal claims auditor. We again reviewed the procedures and documentation for purchases of equipment, supplies, employee reimbursements, and contract purchases. We found good overall internal controls and segregation of duties. As with human resources and payroll, this area's rating is affected by its significant dollar value and its

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Summary of Reviewed Areas

Purchasing and Payables *(continued)*

susceptibility to fraud. As a result, it is unlikely the area of Purchasing and Payables will ever rate low risk.

Significant Internal Control changes made since the last risk assessment report:

- 1) The Treasurer has recently reviewed and removed inactive vendors from Finance Manager. The Treasurer will review and update the list periodically.

New and previously reported Observations and Recommendations:

- 1) Observation: The District does not utilize the positive pay feature with its financial institution.
Recommendation: Positive pay is another widely used feature that adds another layer of security over accounts payable. Because of its design, the bank will only clear checks it is authorized to pay based on the file transmitted by the District. The Positive Pay feature can also be used for payroll checks.

Current Assessment

The processes and procedures in this area have remained unchanged from the last risk assessment. The District has good overall internal controls and procedures in place and continues to follow District and New York State purchasing policies. The District's Claims Auditor is a practicing Certified Public Accountant and has experience with other school districts. He is given access to all pertinent information and does a thorough review. The Purchasing Agent is well educated in purchasing regulations of the District and State. While we feel there is little risk in this area, the risk rating remains at *Medium*.

Transportation - Risk Score: 65

The District has a contract with a third party vendor to provide transportation for District students. This contract relieves the District from handling the scheduling of bus routes, timing, and hiring of drivers. As part of the agreement, the District is responsible for purchasing the fuel during the months September through April. After this period, the fuel is purchased by the Transportation Company. From our understanding, the Transportation Company uses the same bus fleet to transport students of neighboring districts. The District continuously monitors its fuel costs and periodically compares total transportation costs to that of neighboring Districts. Management feels its transportation costs are comparable to other districts.

Significant Internal Control changes made since the last risk assessment report:

-None.

New and previously reported Observations and Recommendations:

-None.

Current Assessment

During the current school year, Chappaqua Transportation was able to reduce one full size bus and eliminate some dead miles from certain routes. The Business Office and Chappaqua Transportation continue to analyze bus routes for efficiencies. The long standing contract with the

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Summary of Reviewed Areas

Transportation*(continued)*

vendor is renewed each year providing the price increase is at or below CPI. Management believes its transportation costs are reasonable when compared to neighboring school districts. The risk rating remains at Medium Risk.

Benefits - Risk Score: 58

Due to the low relative dollar volume and the procedures currently in place, benefits was originally assessed a *Medium Risk* rating. The common concern in this area is the possibility of benefits being paid for unauthorized employees or retirees. However, we believe there are controls and procedures in place to mitigate this risk.

Significant Internal Control changes made since the last risk assessment report:

- 1) Invoicing for benefit reimbursements and logging of receipts is now segregated and being cross checked.

New and previously reported Observations and Recommendations:

-None.

Current Assessment

Since the last risk assessment review, the Affordable Care Act (ACA) went into effect. The District is working with the Putnam Northern Westchester Consortium, to analyze and determine whether the District is meeting the requirements for health insurance coverage under the law. They are also working in tandem to ensure all required reporting is prepared.

Aside from the ACA law, there were no material changes to the procedures or processes relating to benefits. The most significant event relating to this area was the hiring of a new Assistant Superintendent for Human Resources, as discussed in the Human Resource and Payroll section of this report. We did not note any specific changes or new weaknesses in the procedures over this area as a result of the change.

With the ACA taking effect for 2015, it may be beneficial for the District to perform an intensive review of this area to first ensure all daily procedures and internal controls are operating effectively and second to ensure the District is following the requirements of the new law. The Risk Level remains at Medium.

Information Technology - Risk Score: 56

Information Technology in education environments has basic inherent risks due to the concentration of critical information being in an electronic format and the need to provide for the proper security over this information. We believe that the District's network is well developed and all of its data is secure. Technology must be monitored closely and vigilantly at all times, for the safety of information, as well as the students using computers within the District.

Significant Internal Control changes made since the last risk assessment report:

-None.

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Summary of Reviewed Areas

Information Technology *(continued)*

New and previously reported Observations and Recommendations:

-None.

Current Assessment

Our intensive review report of Information Technology dated December 28, 2012 noted a well established environment with good internal controls and procedures. Since that review, the District has implemented, or is the process of implementing most of the recommendations made in that report. Currently the District is implementing a new Storage Area Network (SAN) and replacing Microsoft Exchange 2007 with Exchange 2013, among other technology investments. During the past school year the Department replaced a technician and added an additional administrator level technician. The replacement and the addition of technicians did not increase the risk of this area. Conversely, the new employees possibly could provide comments of current practice and/or offer new and better ideas.

During the past school year, the District continued its initiative of providing Chrome books to students at the High School. The District has procedures in place that tags and inventories all electronics given to staff and students. Issued Chrome books are configured to limit unauthorized use, and have manufacturer warranties. So far, the initiative has worked well and a very small amount of Chrome books are lost or suffer damage.

Due to its every changing nature, the Risk level remains unchanged at *Medium Level*.

Food Service - Risk Score: 51

Food service is run by an independent company (Aramark). This alleviates the need for the District to manage this area of operations. The District has an employee responsible for tracking and reporting Free and Reduced Lunch students. Because Aramark handles the majority of the food program, and provides enough documentation of activity for the District to feel comfortable that they are reporting revenues correctly, Food Service was rated at *Medium Risk*.

Significant Internal Control changes made since the last risk assessment report:

-None.

New and previously reported Observations and Recommendations:

-None.

Current Assessment

Aramark has its own set of internal controls and procedures, and continues to modify them as needed. The District also implements its own set of procedures to ensure proper accounting of the school lunch program. While we did not note any significant weaknesses, this is an area most susceptible to misappropriations due to its nature. The risk level remains unchanged at *Medium Level*.

Chappaqua Central School District

Summary of Reviewed Areas

Student Services - Risk Score: 51

Extra classroom activities is an area where student funds are handled by many individuals before it is deposited into the club bank account. Although the dollar amount is low, this is an area where the risk of theft is greatest. It should be noted that our review did not find any instances of theft or fraud. This area is rated as *Medium Risk*.

Significant Internal Control changes made since the last risk assessment report:

-None.

New and previously reported Observations and Recommendations:

-None.

Current Assessment

The District had an intensive review done on this area in 2009. Since that review, certain employees and positions were eliminated or changed and it changed the processes noted at that time. We do not note material weakness as a result of these changes; however it may be beneficial to the District to perform a follow up review of this area in the future. The Risk Level remains at *Medium*.

Facilities and Operations (including security) - Risk Score: 47

Maintenance is an important part of keeping the District up and running. The District employs skilled maintenance and custodial workers for the repair and maintenance of the District's buildings and grounds. Although the dollar volume in this area is significant, it typically rates lower than receipts and purchases because the volume of monetary transactions are minimal. We believe that the systems in place reduce risk enough to assess this area a *Low Risk* level.

Significant Internal Control changes made since the last risk assessment report:

- 1) The Buildings and Grounds department has increased their use of School Dude to track all work orders. They have stressed the importance to the District staff to use the system for all requests.
- 2) Facility usage billing is now performed quarterly. This should help ease the previous process, ensure items are billed correctly, and increase collectability.
- 3) Certain buildings are now closed after normal school hours. All after school activities are generally routed to certain locations. This process should help control facility usage and increase security.

New and previously reported Observations and Recommendations:

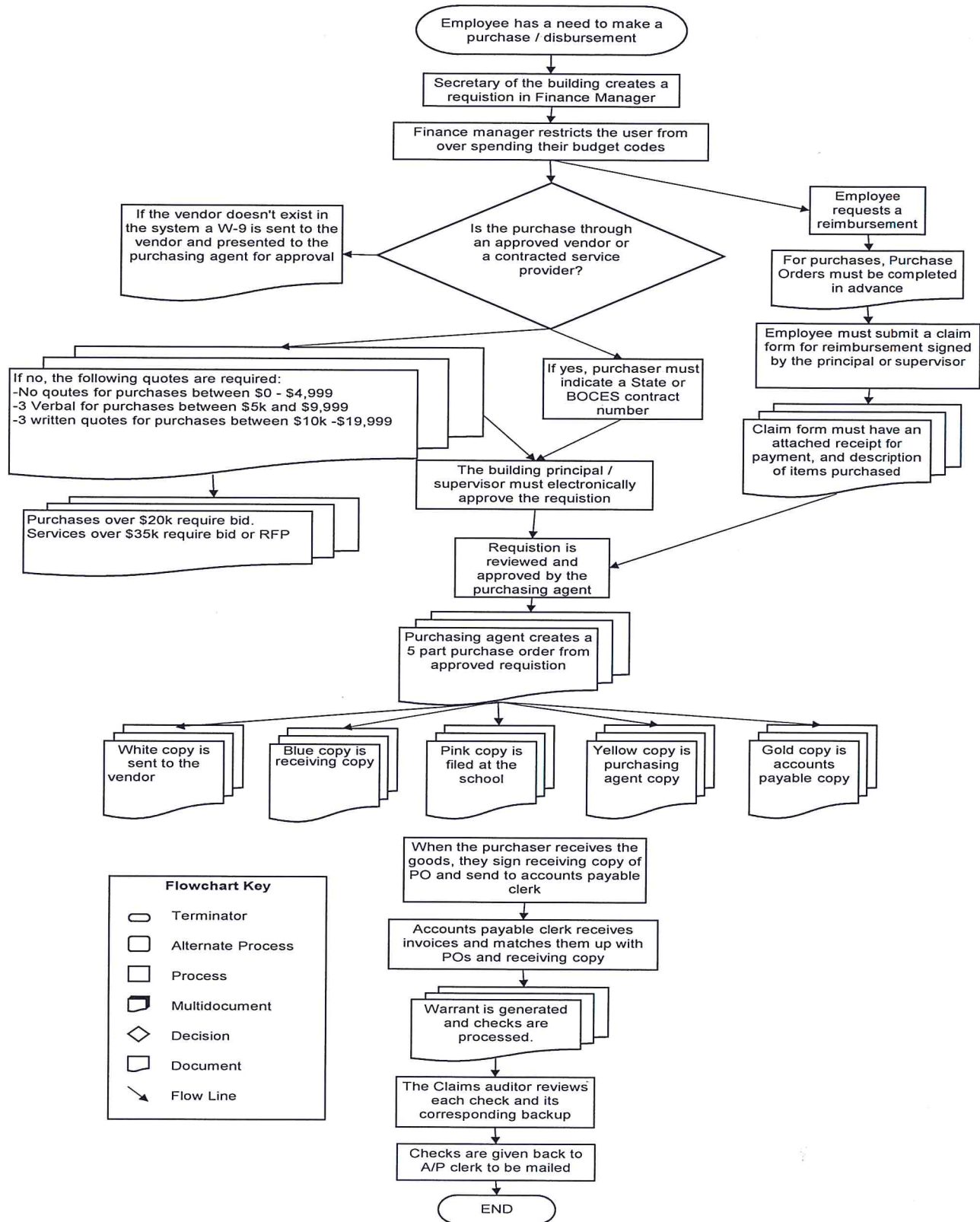
-None.

Current Assessment

Since the intensive review of this area (June 2014), the District implemented processes to increase its internal controls over certain areas of this operation. During our current overview, we have not noted any significant deficiencies or negative changes from previous practice. The Risk level remains at *Low Risk*.

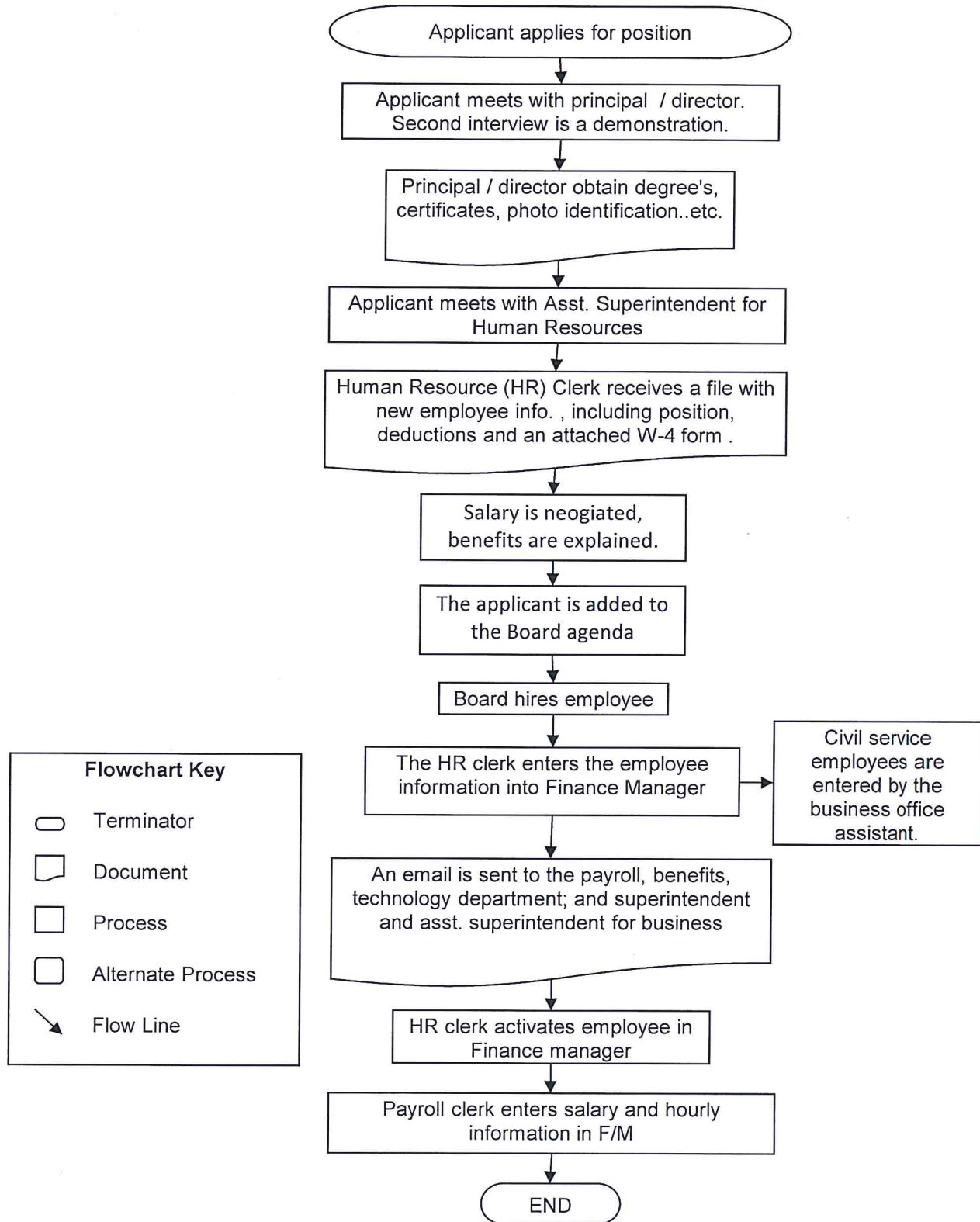
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Flow Chart – Purchasing and Payables



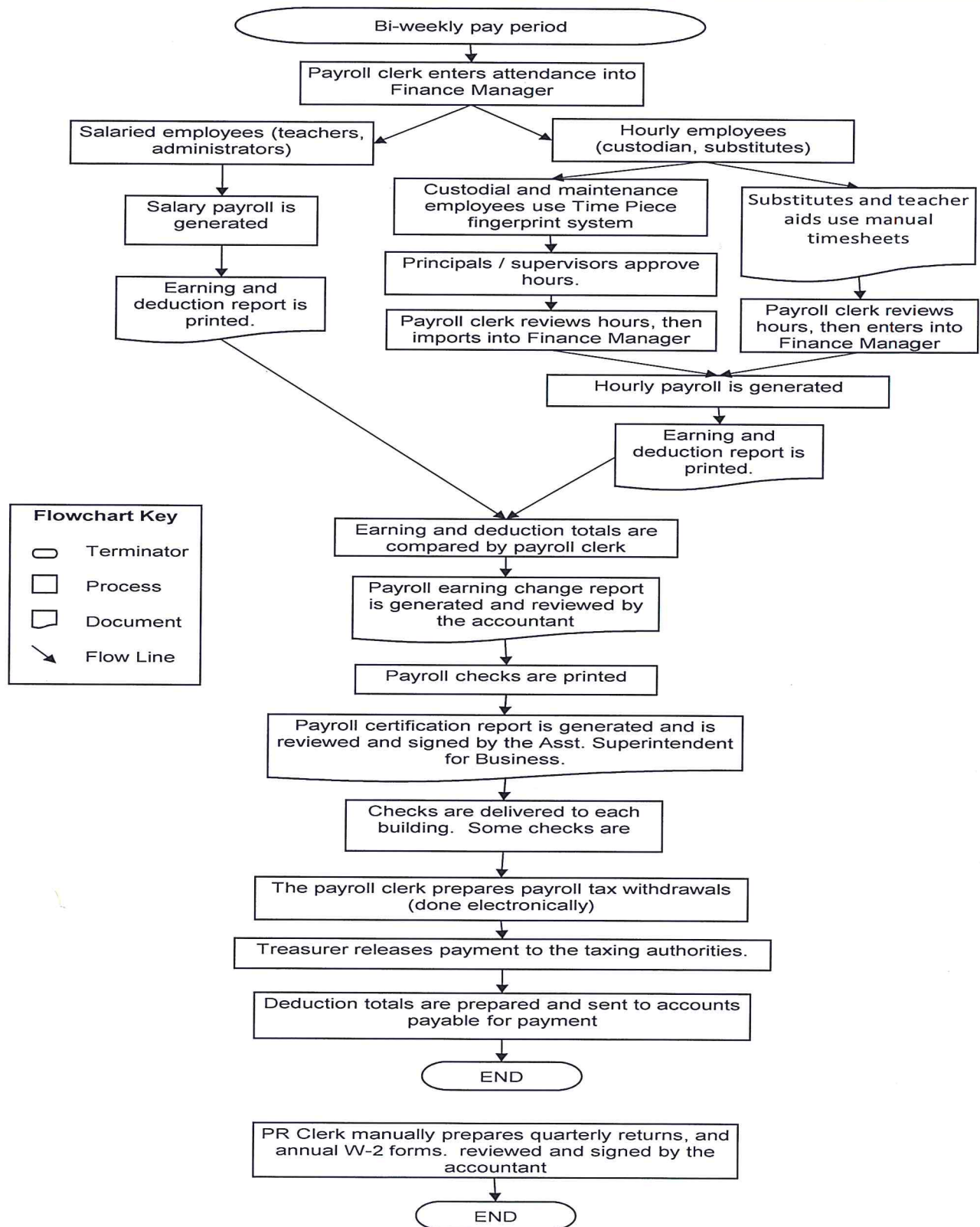
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Flow Chart – Human Resources



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Flow Chart – Payroll



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Flow Chart – Capital Projects

