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Chappaqua Central School District

**Updated Risk Assessment Report
Covering the State mandate for the year ending June 30, 2014**

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 previous Risk Assessment report, dated August 27, 2012 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, 2014.

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

September 12, 2013

Chappaqua Central School District

Executive Summary

The District continues to maintain strong internal controls and procedures over its business operations, and has implemented recommendations from our previously issued risk assessment reports. The risk scores and our recommendation for an intensive review are summarized below:

	Risk Score	Risk Level
Revenue and Receipts	65	Medium
Transportation	65	Medium
Human Resources and Payroll	64	Medium
Purchasing and Payables	61	Medium
Benefits	58	Medium
Information Technology	56	Medium
Food Service	51	Medium
Student Services	51	Medium
Facilities and Operations	48	Low
Vending Machine Service	45	Low

Summary of improvements to the procedures and internal controls since the last review:

- 1) Individual username accounts have been created for each of the three Information Technology (IT) Staff accessing the network server to provide a better audit trail.
- 2) A second IT administrator has been added to the emergency contact list in the event of a server or network malfunction.
- 3) The District is in the process of obtaining hardware to take advantage of snapshot backup technology through its SANS server.
- 4) The District is updating its web server and will obtain a SSL certificate for the Citrix server.
- 5) The District engaged an outside vendor to independently review the Special Education operation.

Summary of new and previously noted observations:

- 1) We recommend the Assistant Superintendent for Business be listed as a secondary approver for all business office requisitions and equipment (budget code 200) requisitions.
- 2) Scheduling and organizing substitute teachers and aides is a manual process. The District should consider using an automated system.
- 3) Administrators are not required to obtain preapproval for scheduled time off. This process should be consistent through-out the District.
- 4) The District should review its policy and procedures for purchasing non public school text books.
- 5) Team club accounts of the Middle School are accounted for by the Business Office. These are not considered extra classroom activities and should not be part of the District process.
- 6) We recommend the District purge obsolete/unused vendors from Finance Manager. (*noted on previous risk assessment report*)
- 7) We recommend the District conduct a count of assets and compare it against the Asset Tag reports, to ensure the list is accurate. (*noted on previous risk assessment report*).
- 8) There is no written preapproval for overtime for clerical staff. (*noted on previous risk assessment report*)
- 10) The Benefits clerk invoices retirees and also receives payments. (*noted on previous risk assessment report*)

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 accounting 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 issued by the State Comptroller's Office as well as the District's External Auditors.

During our engagement we interviewed the following key personnel:

John Chow, *Assistant Superintendent for Business*

Blanche Blair, *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*

Andrew Selesnick, *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*

Jennifer Michel, *Human Resources*

Liisa Elsner, *Registrar, Business Office Assistant*

Heidi McCarthy, *Director of Special Education*

Theresa Markley, *District Clerk*

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 initial assigned risk score, previous risk score, and its updated risk score, as well as how it compares to the average score of thirteen neighboring school districts:

Area of Review	Previous Risk Score	<i>Current Risk Score</i>		Comparison to 13 districts average scores
		Score	Level	
Revenue and Receipts	65	65	Medium	66
Transportation	65	65	Medium	60
Human Resources and Payroll	64	64	Medium	67
Purchasing and Payables	61	61	Medium	64
Benefits	58	58	Medium	63
Information Technology	65	56	Medium	63
Food Service	51	51	Medium	58
Student Services	51	51	Medium	59
Facilities and Operations	48	48	Low	52
Vending Machine Services	45	45	Low	-

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

Area of Review	Intensive Review History
Information Technology	Completed- 6/30/2013
Human Resources and Payroll	Completed- 6/30/2012
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
Facilities and Operations	<i>Recommended for next area</i>
Benefits	
Revenue and Receipts	
Transportation	

Chappaqua Central School District

Summary of Reviewed Areas

Revenue and Receipts - Risk Score: 65

When reviewing the District's procedures in this area, we reviewed different methods in which money is received and how it is recorded, revenue sources are 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. However, this is a very significant area of the activities of the District and electronic transfers need to be closely monitored.

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

-None.

New and previously reported Observations and Recommendations:

- 1) Observation (previously noted): Bank reconciliations are prepared by the Treasurer who also enters all cash receipts and is also the check signer and Finance Manager administrator of the District. Although there are mitigating controls in place to protect the District, this is considered a weakness in segregation of duties, whereby one person has too much control over one process.

Recommendation: In an effort to segregate part of these duties, we recommend the Accountant enter all cash receipts. We also recommend the Assistant Superintendent for Business continue to review the bank reconciliations and Finance Manager audit trail reports.

Current Assessment – 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. Our updated review noted the same good controls over the receipt of funds and the protection of cash as previously reported. The District has recently engaged a agency that specializes in special education to review the special education process and State aid reimbursement reports. The report documented well established operational processes and procedures. The review also reported the State aid reimbursements were accurately filed, with only a negligible amount of unclaimed aid missed. The Risk Level remains at *Medium*.

Human Resources and Payroll - Risk Score: 64

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:

-None

Chappaqua Central School District

Summary of Reviewed Areas

Human Resources and Payroll (continued)

New and previously reported Observations and Recommendations:

- 1) Observation: The District has one employee manually organizing and scheduling substitute teachers and aides district wide. The District does not use an automated substitute teacher scheduling system such as AESOP or Subfinder. While we did not note any significant issues, the District should consider automating the process.
Recommendation: The District should determine whether there are significant benefits in switching from a manual system to an automated system. We have noted many neighboring districts using either AESOP or Subfinder.
- 2) Observation: We noted school administrators are not required to obtain preapproval for time off.
Recommendation: We recommend the approval process for time off be consistent throughout the District. Administrators should request time off in writing and submit it to Human Resource department for approval and notification.
- 3) Observation (previously noted): The current COSA/CSEA contract does not require staff to obtain written preapproval for overtime. Without advance written authorization, it is difficult for the District to control the amount of overtime claimed because it is always "after the fact."
Recommendation: We recommend the District try to include this requirement to the contract during the next negotiations. All employees should request overtime hours in advance and in writing. This will ensure overtime hours are properly authorized and are spent appropriately.

Current Assessment

The District has implemented nearly all our recommendations from our previously issued intensive review report of Human Resources and Payroll, dated October 31, 2011. The District continues to maintain good procedures and strong internal controls over this area. Due to this area's nature 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 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:

-None

Chappaqua Central School District

Summary of Reviewed Areas

Purchasing and Payables *(continued)*

New and previously reported Observations and Recommendations:

- 1) Observation: During our review we noted requisitions originating from the Business Office and Human Resource department are directly routed to the Purchasing Agent. There is no supervisory approval of these requisitions, for the respective departments, during the process.
Recommendation: We recommend requisitions originating from the Business Office be approved by the Treasurer before routing to the Purchasing Agent. We also recommend requisitions originating from the Human Resource department be approved by the Assistant Superintendent for Human Resources. At the time our report was ready to be issued, the District had implemented the recommendation to route the Business Office requisitions to the Treasurer. The District is also considering adding the Assistant Superintendent for Business as an approver for requisitions on purchases of equipment initiated by the buildings and grounds department.
- 2) Observation: During our review we noted text books purchased for non-public school students were not stamped property of "Chappaqua Central School District" and on rare occasions contained religious content.
Recommendation: We recommend the District stamp all text books property of the District. We also recommend the District review its policy on purchasing text books that contain religious content. According to the New York State text book loan program, text books purchased by a district should not contain religious content.
- 3) Observation (previously noted): As in many school districts, the vendor list in Finance Manager can become significantly long. These vendor lists can contain old vendors that are no longer used by the districts. While the risk of paying an unapproved vendor is unlikely, we have noted other school districts mistakenly paying an incorrect vendor.
Recommendation: As a preventive measure, the District should consider purging old unused vendors from Finance Manager. This will ensure that only current approved vendors can be selected during the course of district operations.
- 4) Observation (previously noted): The District tags and tracks assets that are valued over \$500. Due to incompatible information, the District has not recently conducted a physical count of smaller District assets, such as tape machines, instruments, etc. The District does however; perform counts of its larger assets such as property and equipment.
Recommendation: We recommend the District perform a physical count of tagged assets purchased during last school year. This will ensure the current process of tagging items is effective and/or identify any problem areas. The District may then continue to conduct the count on a periodic basis. We are available to aid the District in the count, if needed.

Current Assessment

Our intensive review report of Purchasing and Payables dated May 26, 2011 noted strong internal controls and procedures, and good segregation of duties. The majority of our recommendations from that report have been addressed. The Purchasing Agent is well educated in purchasing regulations of the District and State and the claims auditing process is thorough. While we feel there is little risk in this area, the risk rating remains at *Medium*.

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Summary of Reviewed Areas

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

The District has recently renewed its longstanding transportation contract with a minimal increase. Management continues to analyze the costs of transportation and how it compares to neighboring districts. Management believes its transportation costs are reasonable when compared to neighboring school districts. Transportation is normally a medium risk area due to its low susceptibility of monetary fraud or theft. 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:

-None

New and previously reported Observations and Recommendations:

- 1) Observation (previously reported): Benefit reimbursement checks are invoiced, received and accounted for by the Benefits department. The person invoicing and accounting for reimbursements should not also receive payment.

Recommendation: We suggest someone in the business office be responsible for receiving all benefit reimbursement checks. The receipts should be logged, copied, endorsed and given to the Treasurer or courier for deposit. This segregation establishes a cross check between the two employees and the two processes.

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Summary of Reviewed Areas

Benefits *(continued)*

Current Assessment

The Benefits process is primarily handled by one employee. This is a common observation found among school districts, and because of budget restrictions, we do not expect corrective action. The Benefits Clerk is well knowledgeable in this field and works closely with other departments of the District. While we did not note any significant deficiencies, this maybe an area, that could be selected for a future intensive review. 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:

- 1) The District has created individual username accounts for each of the three IT technicians that access the network server. This will provide a better audit trail of who has been accessing the system.
- 2) The District has added a second person to the emergency contact list in the event of an emergency. This will ensure the emergency message was received by a District IT staff member.
- 3) The District is in the process of ordering the hardware to implement and take advantage of Snapshot technology from it's SANS servers.
- 4) The District's web server is being updated and will obtain an SSL certificate on its Citrix server.

New and previously reported Observations and Recommendations:

- 1) **Observation (previously noted):** There are currently no advanced network security tests being performed on the firewall. The firewall and security may have some minor risk exposures that can easily be identified by performing vulnerability scans.
Recommendation: We recommend the District consider contracting a third party company to run vulnerability scans or licensing vulnerability scanning software and perform periodic scans. As of the date of this report the District is planning to install an internal vulnerability scanner as well as contract with a third party vendor.
- 2) **Observation (previously noted):** The current Microsoft Exchange server is not fully patched to the latest service pack because of compatibility restrictions with Mimosa.
Recommendation: The District should consider upgrading their Mimosa to one that supports a later version of Microsoft Exchange, and run the necessary service packs. As of the date of this report, the District is preparing to migrate from Exchange 2007 to Exchange 2013, which will eliminate the need for Mimosa.

Current Assessment

Our intensive review report of Information Technology dated December 28, 2012 noted a well established environment with good internal controls and procedures. The District has

Chappaqua Central School District

Summary of Reviewed Areas

Information Technology *(continued)*

implemented, and plans on implementing, our recommendations made in that report. The District goes to great lengths to limit the risks associated with Information Technology. However, because of its nature, it is nearly impossible for the risk level of this area to ever be at a Low level. The risk score was reduced to 56 and 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*.

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:

- 1) Observation: School team clubs are generally not considered extra classroom activities. It was noted that the team club activity of the Middle School are accounted for by the business office in addition to the extra classroom club activity.

Recommendation: The activity of the team clubs at the High School are accounted for by the PTA. We recommend the club teams at the Middle School follow the same procedure.

Chappaqua Central School District

Summary of Reviewed Areas

Student Services *(continued)*

Current Assessment

In 2009, the District had an intensive review done on this area. The report noted on good internal controls. Our updated review documented the same controls and procedures in place as previously reported. The area of Student Services is generally overlooked because of its immateriality to a school district's overall budget. As a result, resources are not put towards the process and it typically causes the risk level to be higher than expected. While we did not find any significant weaknesses the Risk level remains at *Medium*.

Facilities and Operations (including security) - Risk Score: 48

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:

-None.

New and previously reported Observations and Recommendations:

-None.

Current Assessment

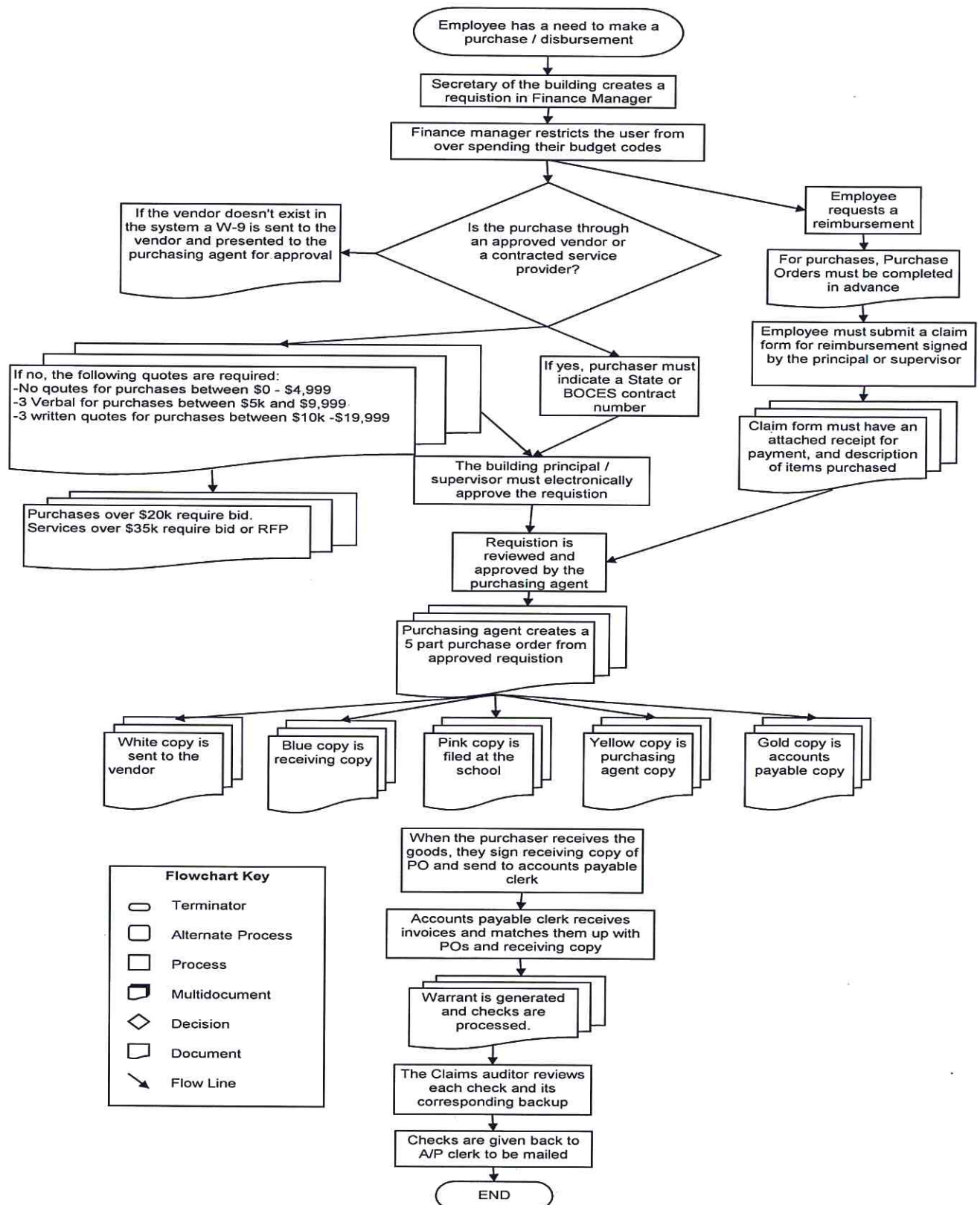
This area maintains its strong procedural controls. The District consistently finds new ways to strengthen controls and procedures in an effort to save the District money. We recommend this area as the next area for intensive review because there are items under the umbrella of Facilities that may benefit from a more detailed review. These items include but are not limited to:

- Review of facility rental process.
- Review of costs (wear & tear) of District assets allocated to facility rental.
- Review of School Dude work order system.
- Review of efficiency of work flow.
- Review of maintenance and preventive maintenance process.
- Review of security (i.e. cameras, alarms, building doors etc)

The Risk level remains at *Low Risk*.

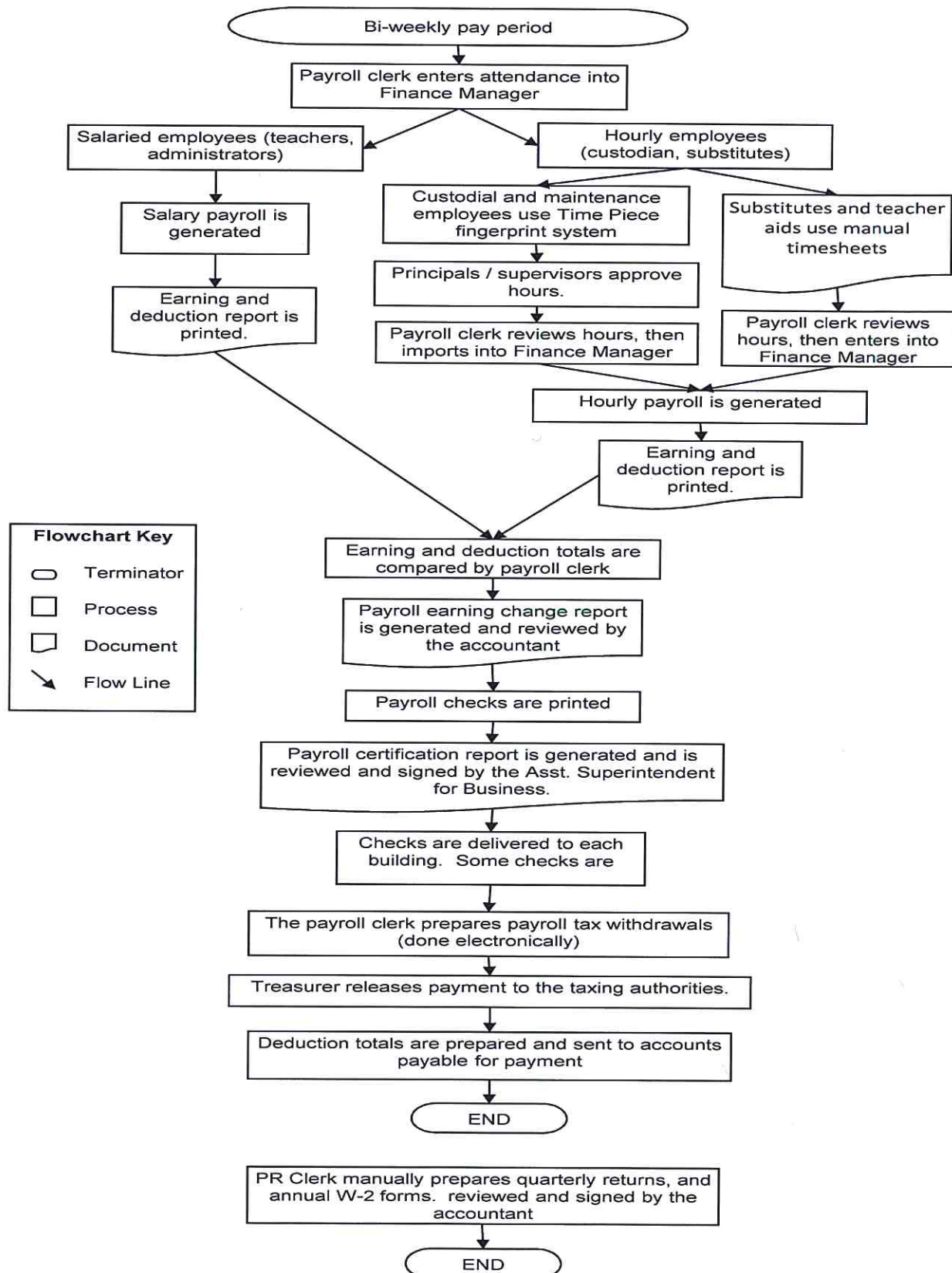
Chappaqua Central School District

Flow Chart – Purchasing and Payables



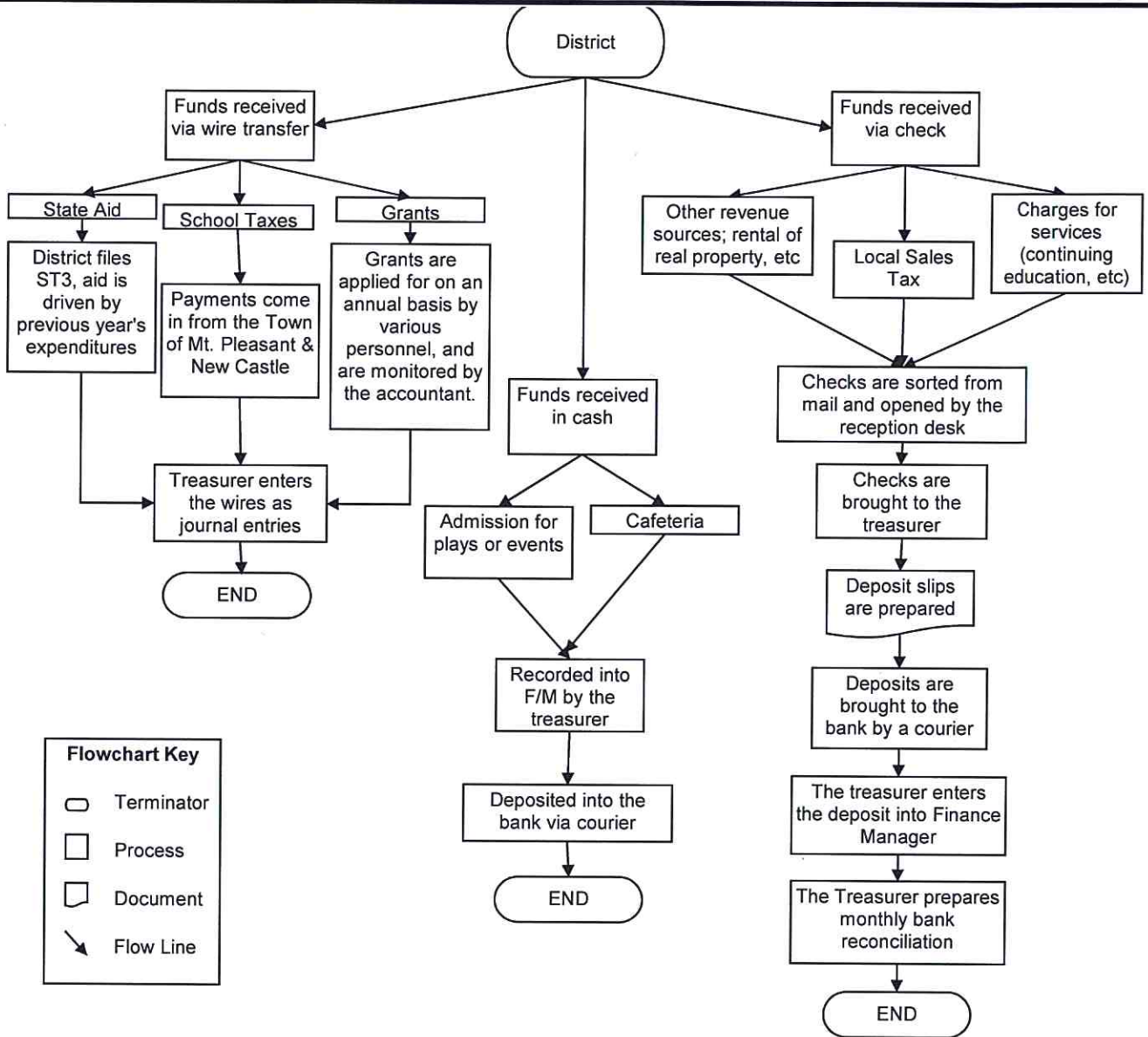
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Flow Chart – Human Resources and Payroll



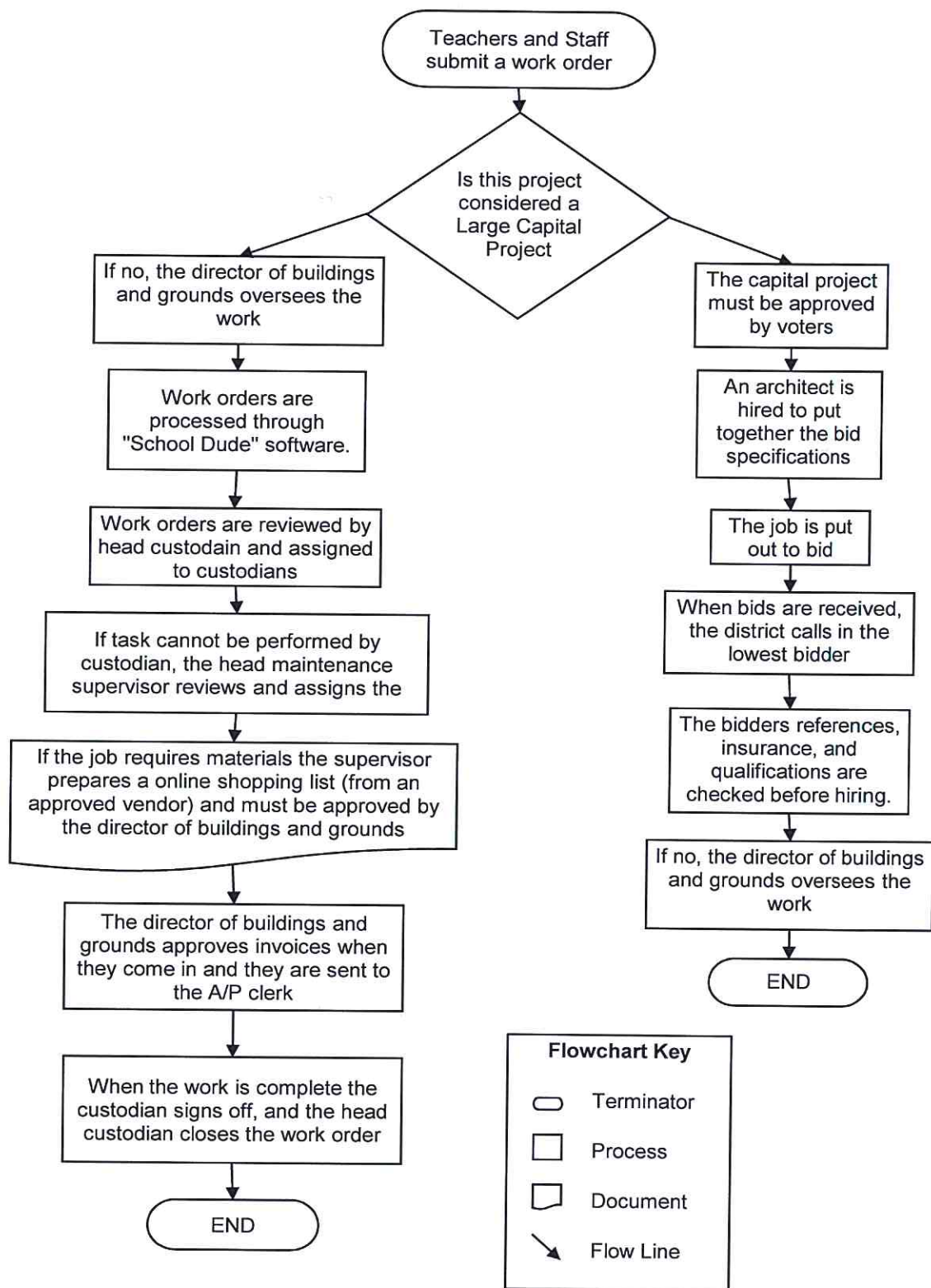
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Flow Chart – Receipts



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Flow Chart – Facilities and Capital Projects



Chappaqua Central School District

Flow Chart – Food Service

