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Chappaqua Central School District

Updated Risk Assessment Report
Covering the State mandate for the year ending June 30, 2013

Chappaqua Central School District

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CERTIFIED PUBLIC ACCOUNTANTS, PC

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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 September 29, 2011, 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, 2013.

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

Larchmont, New York
August 27, 2012

Chappaqua Central School District

Executive Summary

The District continues to show strong administrative leadership and has implemented the recommendations from our previously issued risk assessment reports. The District has maintained good overall internal controls and procedures over its areas of operations. As a result, the risk scores for certain areas were lowered. The risk scores and our recommendation for an intensive review are summarized below:

	Current Score	Current Level	Recommendation for next intensive review
Human Resources and Payroll	64	Medium	Completed- 6/30/2012
Vending Machine Service	45	low	Completed- 6/30/2012
Purchasing and Payables	61	Medium	Completed- 6/30/2011
Food Service	51	Medium	Completed- 6/30/2010 (Previous Auditor)
Student Services	51	Medium	Completed- 6/30/2009 (Previous Auditor)
Benefits	58	Medium	
Information Technology	65	Medium	Recommended as next review area - June 2013
Revenue and Receipts	65	Medium	
Transportation	65	Medium	
Facilities and Capital Assets	48	Low	

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

- 1) The District is now conducting exit interviews whenever possible.
- 2) The Purchasing Agent's signature disk is now kept in a locked safe.
- 3) The Accountant is now documenting his review of payroll tax returns.
- 4) Payroll Clerks are no longer permitted to edit their own payroll information.
- 5) Payroll Clerks are no longer permitted to edit employee payroll deductions for informational purposes.
- 6) Live paycheck distributions are now conducted by two business office employees who do not perform payroll duties.
- 7) In the event of an unclaimed payroll check, the check is now returned to the Treasurer.
- 8) The District has contracted a third party vending machine provider to facilitate all District vending machines.
- 9) Food service conducts monthly surprise cash counts of the cash registers.
- 10) Maintenance employee start and end times have been reorganized to limit overtime.

Summary of new and unresolved observations:

- 1) We recommend the District purge obsolete/unused vendors from Finance Manager.
- 2) We recommend the District conduct a count of assets and compare it against the Asset Tag reports, to ensure the list is accurate.
- 3) The Treasurer is preparing bank reconciliations for all District bank accounts. (*noted on previous risk assessment report*)

Chappaqua Central School District

Executive Summary

Summary of new and unresolved observations (continued):

- 4) There is no written preapproval for overtime for clerical staff. *(noted on previous risk assessment report)*
- 5) 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:

Dr. Lyn McKay, *Superintendent*

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 Schiro, *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.*

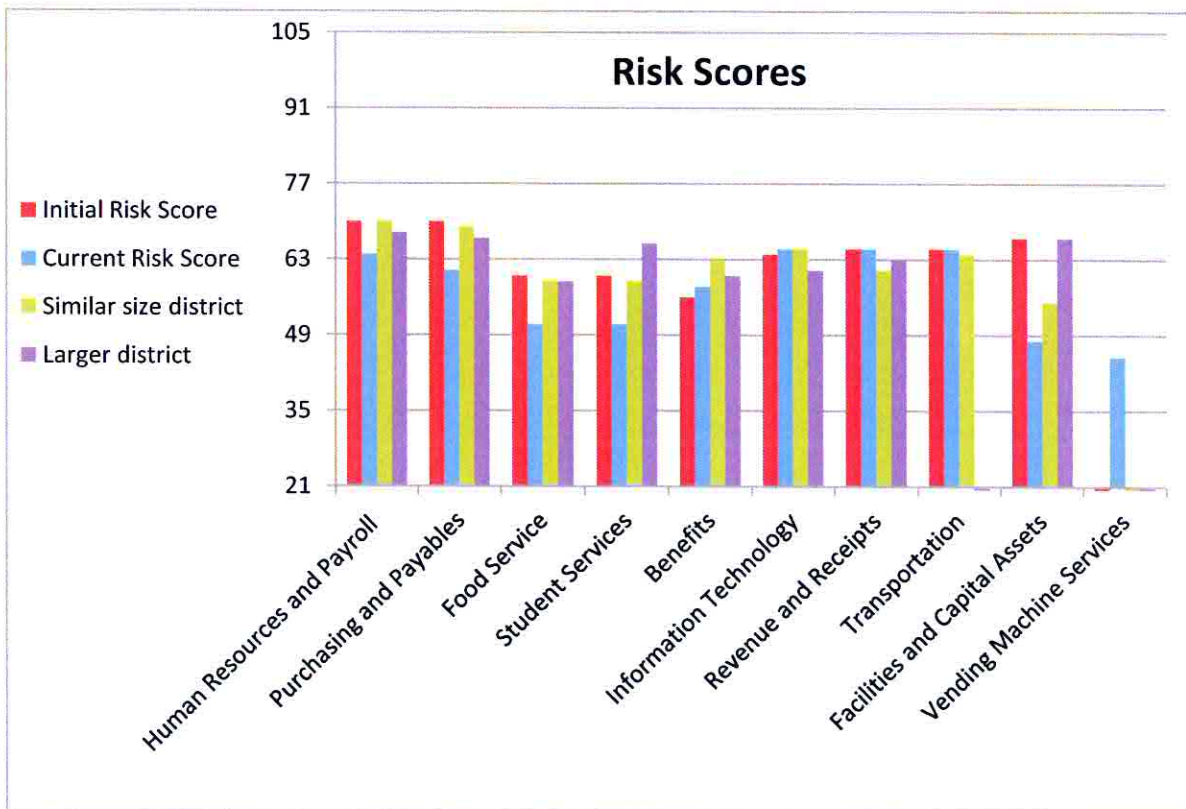
Chappaqua Central School District

Risk Ratings - Results

In the illustration below we list each area, as well as its initial assigned risk score, and level; as well as its updated risk score, and level, and how it compares to other districts of similar and larger size:

Area of Review	Initial Risk Score	<i>Current Risk Score</i>		Comparison to similar size District	Comparison to larger size District
		Score	Level		
Human Resources and Payroll	70	64	Medium	70	68
Purchasing and Payables	70	61	Medium	69	67
Food Service	60	51	Medium	59	59
Student Services	60	51	Medium	59	66
Benefits	56	58	Medium	63	60
Information Technology	64	65	Medium	65	61
Revenue and Receipts	65	65	Medium	61	63
Transportation	65	65	Medium	64	*55
Facilities and Capital Assets	67	48	Low	55	67
Vending Machine Services	-	45	Low	-	-

* Representing one district



Chappaqua Central School District

Summary of Reviewed Areas

Human Resources and Payroll - Risk Score: 64

Original Assessment:

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.

During our review, we did not note any major weaknesses in the procedures or internal controls for this area.

Our findings also revealed good overall internal controls, proper reviews and sign offs. Due to the strong internal controls and procedures in place, we are able to rate payroll at a *Medium Risk* level.

Significant internal control improvements made since the June 30, 2012 risk assessment:

- 1) The Accountant now documents his review of payroll reports and payroll tax returns.
- 2) The Payroll Clerks are no longer permitted to edit their own payroll information. If a change is needed, the Clerk must request the other Payroll Clerk to make the change.
- 3) Finance Manager is no longer permitted to be used as a paycheck calculator. Employees who are interested in determining their net paycheck are directed to their individual tax preparer or online websites.
- 4) Live paycheck distributions are no longer conducted by employees who are involved with the payroll process.
- 5) In the event of an unclaimed payroll check, the check is now returned to the Treasurer for follow up, not the payroll department.

New observations and recommendations:

None.

Previously reported observations and recommendations remaining unresolved:

- 1) Observation: 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.

Human Resources and Payroll *(continued)*

Conclusion:

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 has also recently hired a new Assistant Superintendent of Human Resources, and although a new employee can bring innovation and new ideas to the District, the learning curve of daily procedures increases the level of risk. We feel, however, the current policies and procedures, as well as the knowledge of the supporting staff, can reasonably detect errors or misappropriations that may occur. Based on our observations we have decreased the risk score to 64 from 67. The Risk level of *Medium* is unchanged.

Purchasing and Payables - Risk Score: 61

Original Assessment:

Purchasing and Payables are assessed together due to their close relationship. The District follows New York State purchasing regulations. We reviewed the procedures and documentation for purchases of supplies, employee reimbursements, and contract purchases. As with human resources and payroll, this area's rating is affected by its significant dollar value and its susceptibility to fraud.

We did not find major weaknesses in this area. Instead, we found that the overall systems in place are sufficient controls to prevent fraud or material misstatements.

Significant internal control improvements made since the June 30, 2012 risk assessment:

- 1) The Purchasing Agent's signature disk is now kept in a safe when not in use.

New observations and recommendations:

- 1) Observation: 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.
- 2) Observation: 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.

Purchasing and Payables *(continued)*

Conclusion:

Our intensive review report of Purchasing and Payables dated June 30, 2011 noted good overall controls and procedures with limited findings. The majority of our findings from that report have been addressed. The risk score remains at 61 and the risk level of *Medium* is unchanged.

Revenue and Receipts - Risk Score: 65

Original Assessment:

This area includes incoming funds from a number of sources as well as inter-account transfers. When reviewing the District's procedures in this area, we reviewed the following:

- 1) Different methods in which money is received and how it is recorded.
- 2) What the different revenue sources are.
- 3) How money is moved from one account to another.

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 improvements made since the June 30, 2012 risk assessment:

None.

New observations and recommendations:

None.

Previously reported observations and recommendations remaining unresolved:

- 1) Observation: Bank reconciliations are prepared by the Treasurer who is also the check signer and the Finance Manager administrator. 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: If possible, the Accountant should prepare all bank reconciliations and sign off on each one. We also recommend that these reports continue to be reviewed by the Assistant Superintendent for Business.

Conclusion:

The area of Revenues and Receipts has remained at a Medium Risk Level.

Transportation - Risk Score: 65

Original Assessment:

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.

We recommend that on an annual basis the finance office reconcile the amount of fuel purchased by the District to the miles actually used transporting Chappaqua students. From our understanding, Chappaqua Transportation uses the same buses to transport students of neighboring districts. Chappaqua Transportation invoices the District for fuel from September through April, based on the history of their agreement. The District has compared its fuel costs to that of neighboring Districts and determined that its fuel costs are lower.

Transportation is normally a medium-low risk area due to its low susceptibility of monetary fraud or theft. We rated this area at Medium Risk.

Significant internal control improvements made since the June 30, 2012 risk assessment:

None.

New observations and recommendations:

None.

Previously reported observations and recommendations remaining unresolved:

None.

Conclusion:

The risk level remains unchanged at *Medium Level*.

Information Technology - Risk Score: 65

Original Assessment:

Technology is ever changing and so are its dangers. We believe that the system and all of the District's data is secure, but that can change in an instant. 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. Due to the area's non monetary nature and its good security design, we have rated it as *Medium Risk*.

Information Technology *(continued)*

Significant internal control improvements made since the June 30, 2012 risk assessment:

None.

New observations and recommendations:

None.

Previously reported observations and recommendations remaining unresolved:

None.

Conclusion:

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. An intensive review of this area may be beneficial in determining whether the basic framework of internal controls are effective in preventing misappropriations or fraud. The risk level remains unchanged at *Medium Level*.

Benefits - Risk Score: 58

Original Assessment:

Benefits were given a *Medium Risk* rating due to the low relative dollar volume and the minimal chance for fraud in this area. The largest weakness we noted was a lack of segregation of duties.

Significant internal control improvements made since the June 30, 2012 risk assessment:

None.

New observations and recommendations:

None.

Previously reported observations and recommendations remaining unresolved:

- 1) Observation: 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.

Summary of Reviewed Areas

Benefits *(continued)*

Conclusion:

Due to its nature, Benefits is usually handled by one employee. This is a common finding in many school districts. While we did not note any significant deficiencies, we recommend this area for our next intensive review. Other school districts have asked us to look at Benefits to gain better understanding of its procedure and to ensure the procedures in place are sufficient to detect misappropriations or fraud. The risk level remains unchanged at *Medium Level*.

Facilities and Capital Assets - Risk Score: 48

Original Assessment:

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 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 *Medium Risk* level.

Significant internal control improvements made since the June 30, 2012 risk assessment:

- 1) The work schedule for the maintenance crew has been altered so that certain shifts end well after school hours. This limits the amount of overtime needed, because the crew does not have to wait for the buildings to be empty before work is started.

New observations and recommendations:

None.

Previously reported observations and recommendations remaining unresolved:

None.

Conclusion:

This area continues to show strong procedural controls. The District consistently finds new ways to strengthen controls and procedures in an effort to save the District money. The risk score is 48 and the risk level remains at a *Low Risk* level.

Food Service - Risk Score: 51

Original Assessment:

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*.

Food Service *(continued)*

Significant internal control improvements made since the June 30, 2012 risk assessment:

- 1) Aramark now requires the Food Service Director to conduct monthly surprise cash count.

New observations and recommendations:

None.

Previously reported observations and recommendations remaining unresolved:

None.

Conclusion:

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

Original Assessment:

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 improvements made since the June 30, 2012 risk assessment:

None.

New observations and recommendations:

None.

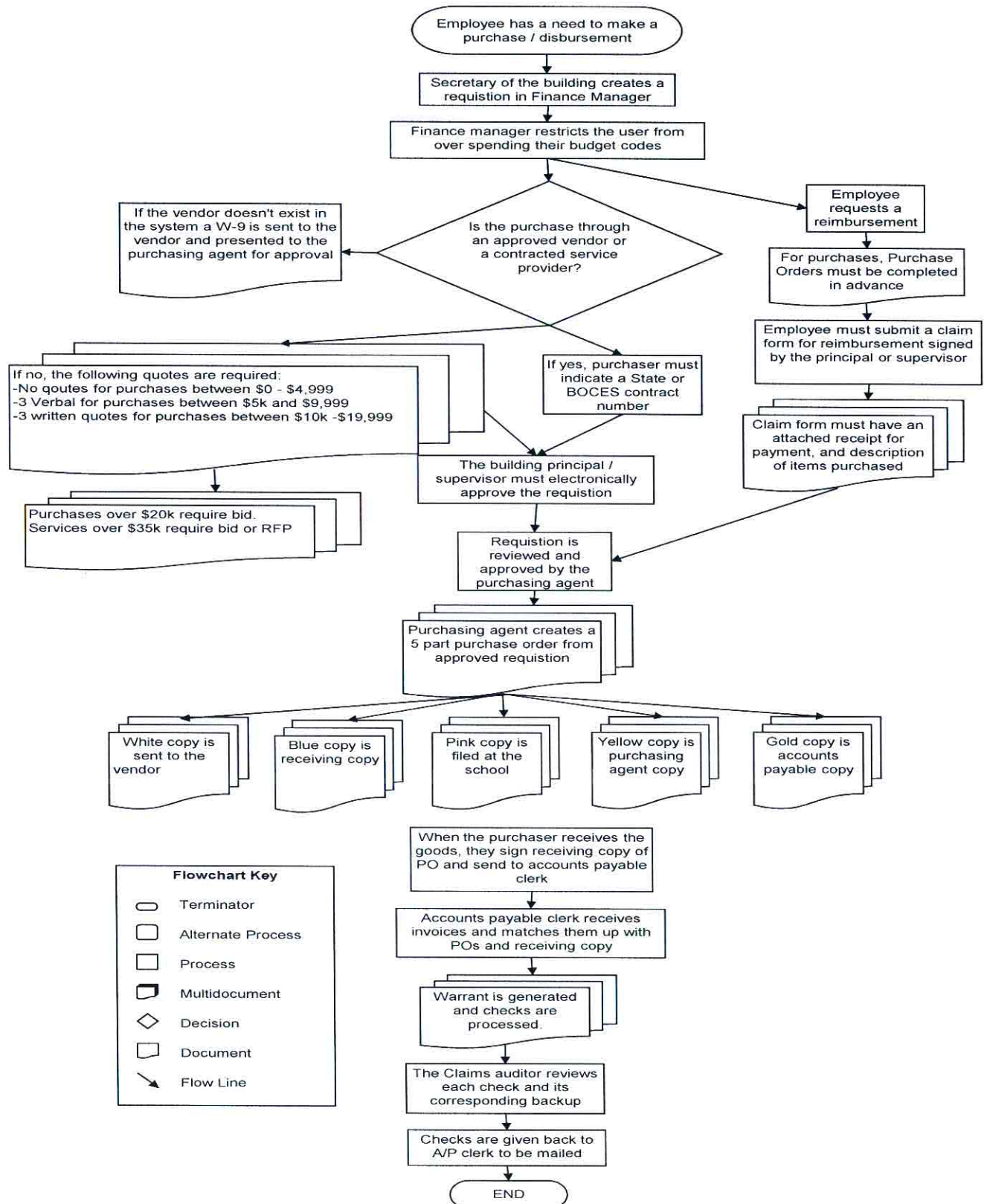
Previously reported observations and recommendations remaining unresolved:

None.

Conclusion:

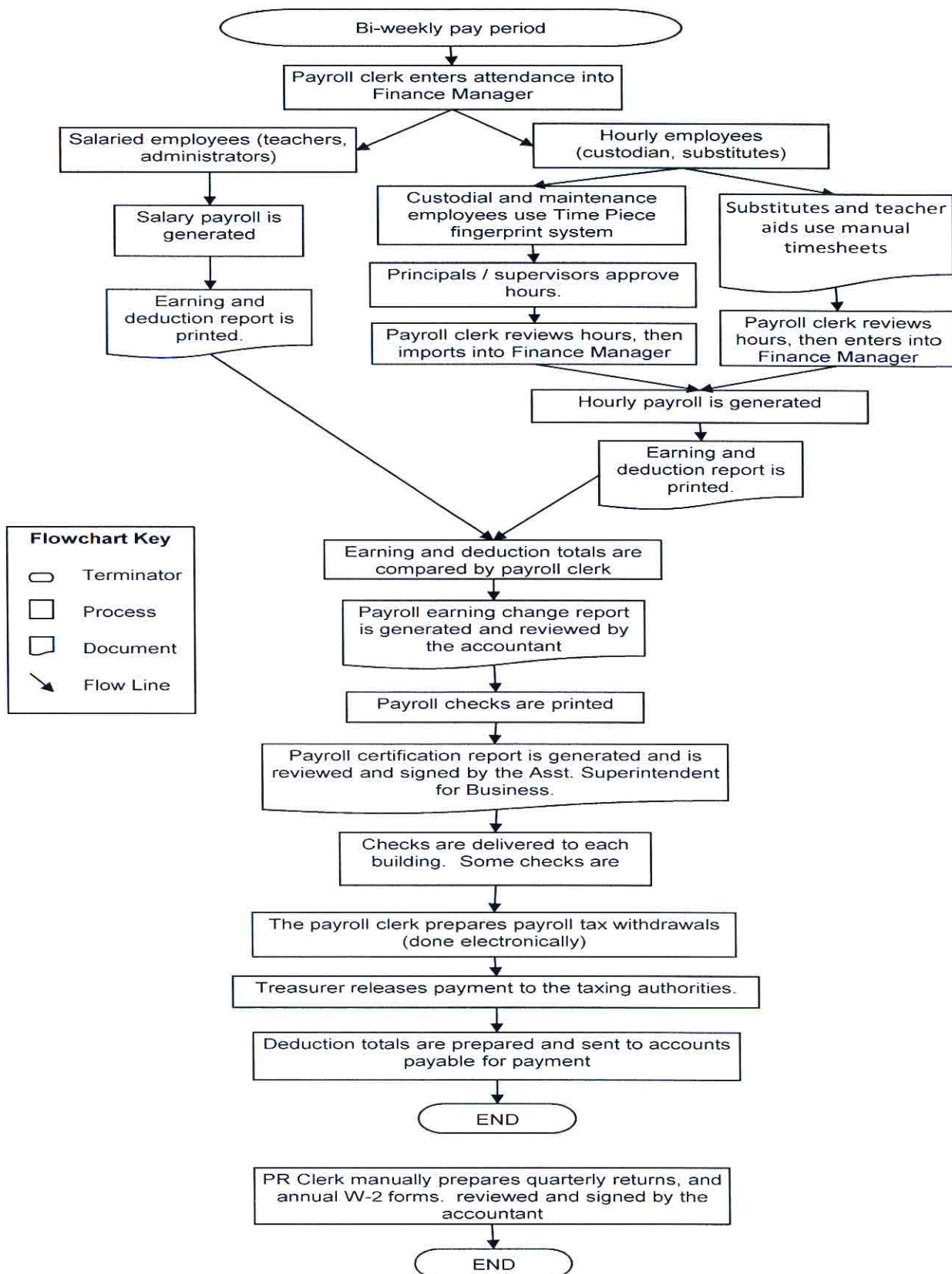
As with Food Service, the nature and dynamics of Student Services causes the risk level to be at *Medium Level*. While there were no significant weakness noted, there are inherent risks that affect the risk score.

Flow Chart – Purchasing and Payables



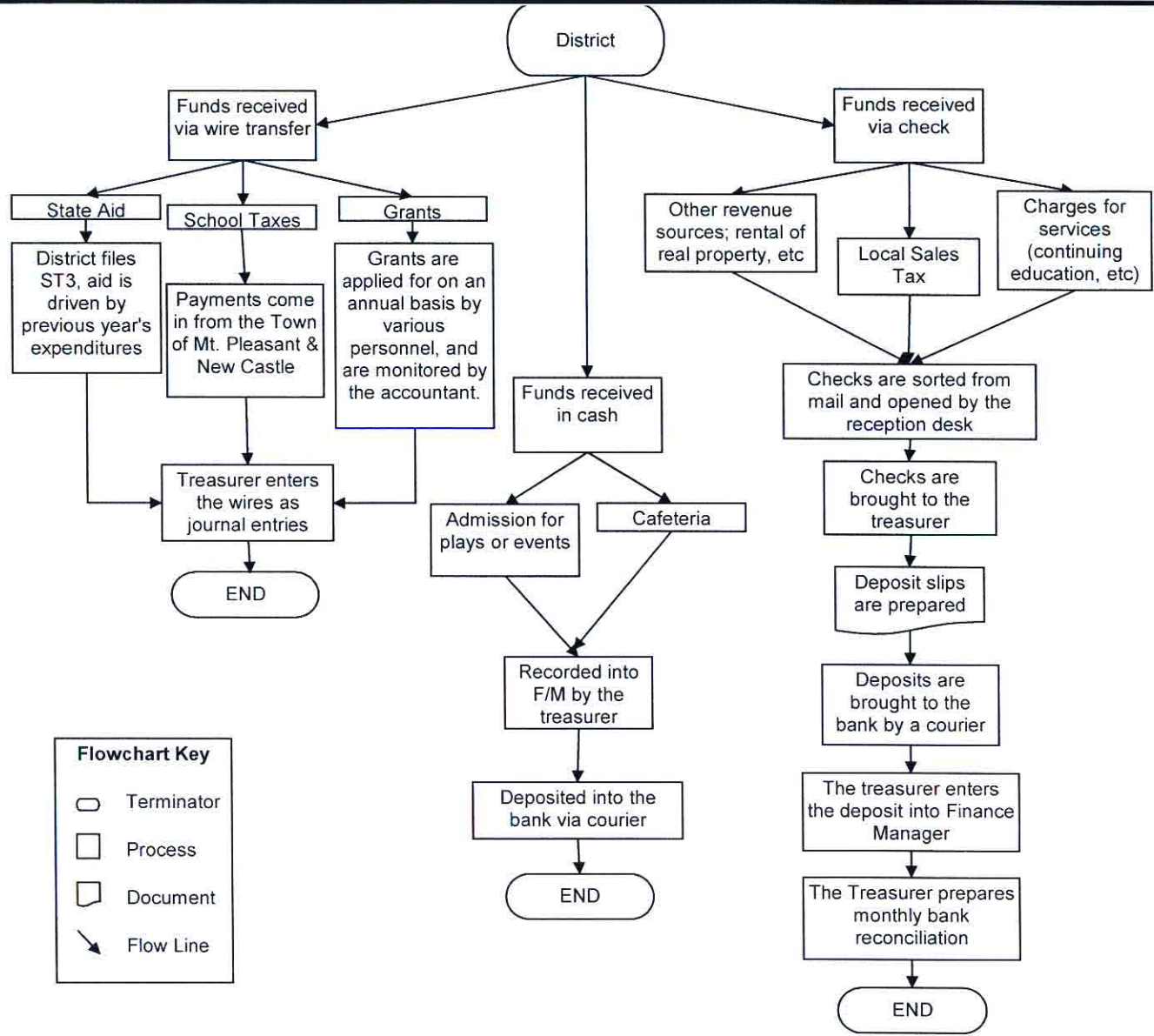
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Flow Chart – Human Resources and Payroll



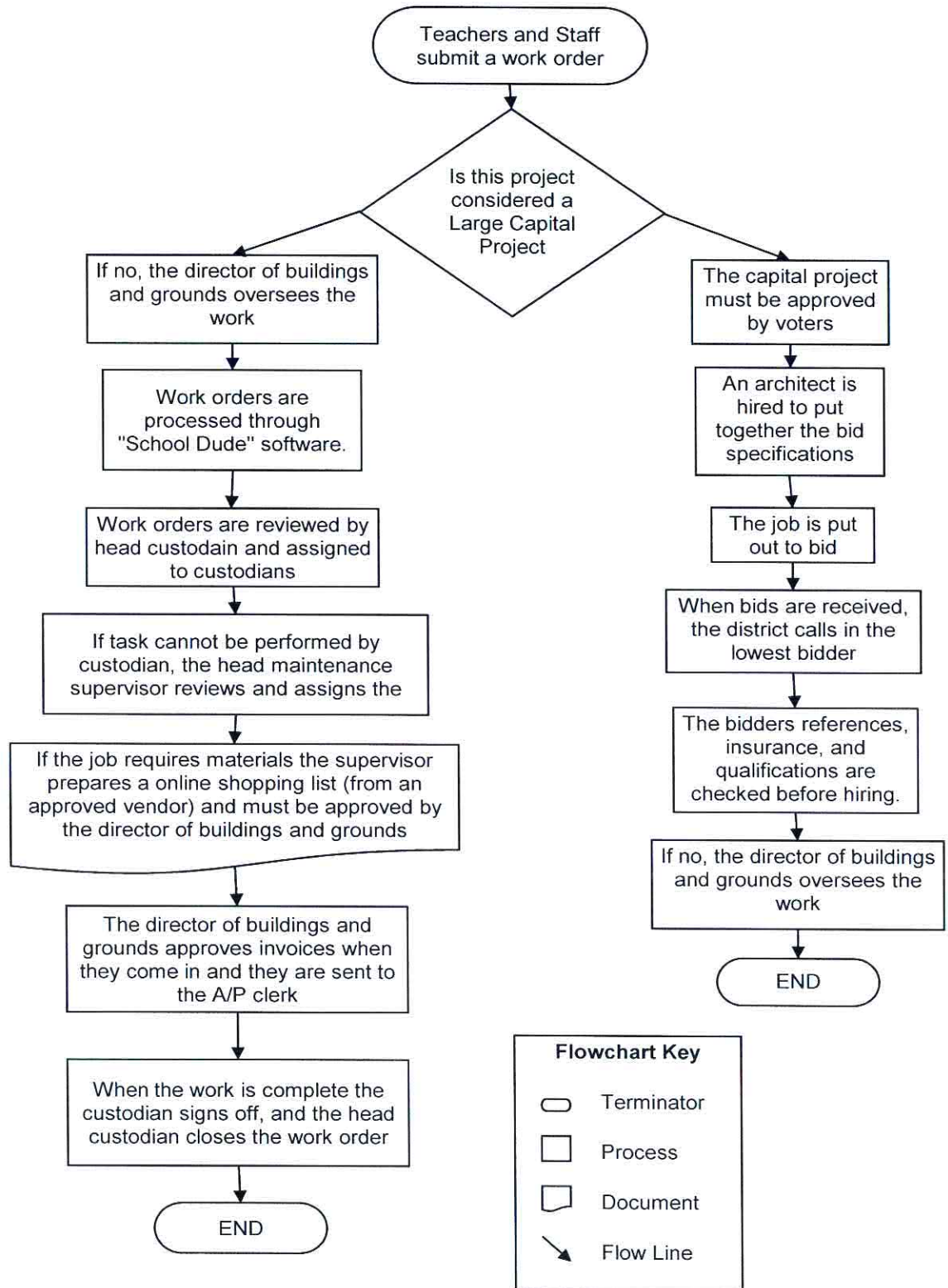
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Flow Chart – Receipts



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Flow Chart – Facilities and Capital Projects



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Flow Chart – Food Service

