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Chappaqua Central School District

**Updated Risk Assessment Report
For the Year Ending June 30, 2012**

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 are pleased to provide our report on our review of the Chappaqua Central School District (the District) internal control system and Updated Risk Assessment for the year June 30, 2012. The purpose of this engagement is to ensure compliance with applicable New York State laws and regulations under the Fiscal Accountability Initiative.

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
September 29, 2011

Chappaqua Central School District

Executive Summary

The District has continued to present good overall internal controls and processes. We were able to reduce some risk scores in certain areas because of improvements made while others remained the same. Our review also noted some minor weaknesses and areas for improvement. These findings as well as our recommendations are explained further in the body of this report.

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	67	Medium	Completed- 6/30/2012
Purchasing and Payables	61	Medium	Completed- 6/30/2011
Receipts	65	Medium	
Transportation	65	Medium	
Information Technology	64	Medium	
Benefits	56	Medium	<i>Recommended as next review area</i>
Food Service	51	Medium	Completed- 6/30/2010 (Previous Auditor)
Extraclassroom	51	Medium	Completed- 6/30/2009 (Previous Auditor)
Buildings and Grounds	48	Low	

Summary of recent improvements to the procedures and internal controls:

- 1) The original Ed data requisitions are now compared to the final purchase orders.
- 2) The Purchasing Agent's signature disk is now kept in a locked drawer.
- 3) The invoicing and collections for facility use is monitored more closely and has become more detailed and current.
- 4) District vehicles are now assigned to specific employees, and thus their responsibility.
- 5) Building and Grounds are stocking fewer inventories, by purchasing items as needed.
- 6) The hiring of a second payroll clerk, which adds another level of segregation over payroll duties.

Summary of new and recurring findings:

- 1) No formal exit interview. (*noted on initial risk assessment report*)
- 2) Treasurer is now preparing bank reconciliations for all District bank accounts, which is a weakness in segregation of duties.
- 3) Improvement is needed in documenting the review and approval of payroll tax returns by the Accountant.
- 4) Payroll Clerks have the ability to edit their own information.
- 5) Payroll Clerks have the ability to edit employee deductions solely for informational purposes.
- 6) Live paycheck distribution is conducted by two clerks who perform payroll functions.
- 7) Unclaimed payroll checks are returned to the Payroll clerk. (*noted on initial risk assessment report*)
- 8) Building and Grounds work-orders are not consistently entered into School Dude.
- 9) There is no written preapproval for overtime for clerical staff.

Chappaqua Central School District

Executive Summary

Summary of existing valuable procedures and internal controls noted:

- 1) Physical documents are completed by clerks, and signed off and approved by a supervisor. This allows for cross review of information and produces an audit trail.
- 2) The District segregates duties in many areas: human resources and payroll, accounts payable and purchasing, Accountant and Treasurer.
- 3) The Assistant Superintendent for Business conducts routine reviews of changes to Finance Manager access rights.
- 4) Finance Manager is used to track high school extra classroom activities.
- 5) In order to process payroll and accounts payable checks, a special designated computer and printer must be used. The computer and printer are locked in a room only accessible by the accounts payable clerk and payroll clerk
- 6) The claims auditor is a practicing CPA. He reviews each check packet, compares to bids, contracts etc. Also tracks check sequence.
- 7) The food service process has segregated duties over cash and good review procedures. Parents electronically deposit funds into the student's lunch account, limiting the amount of cash collected.
- 8) Surprise payroll check distributions are done once per year.
- 9) Gas Boy software is used at the gas pumps to secure and monitor the District's vehicle fuel usage.
- 10) The building alarm system reports are reviewed each month to ensure the custodial staff is "clocking in/out" properly.
- 11) Technology equipment is tracked by type and location. District limits websites such as Facebook, music sharing sites, etc.
- 12) Expenditures are compared to budget line items. Variances are investigated.
- 13) Each pay period a change report is printed and reviewed by the Accountant and Assistant Superintendent for Business.
- 14) At the start of each school year, a master payroll report is printed and reviewed by the Accountant and Assistant Superintendent for Business.
- 15) District performs a surprise review of cash registers during lunch period, to ensure meals are entered correctly.

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 Buildings and Grounds*

Darleen Nicolosi, *Director of MIS*

Vincent Savino, *Health Benefits*

Deirdre McManus, *Director of Food Service*

Paul Citarella (interim), *Assistant Superintendent of Personnel*

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, *Business Office Assistant*

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.

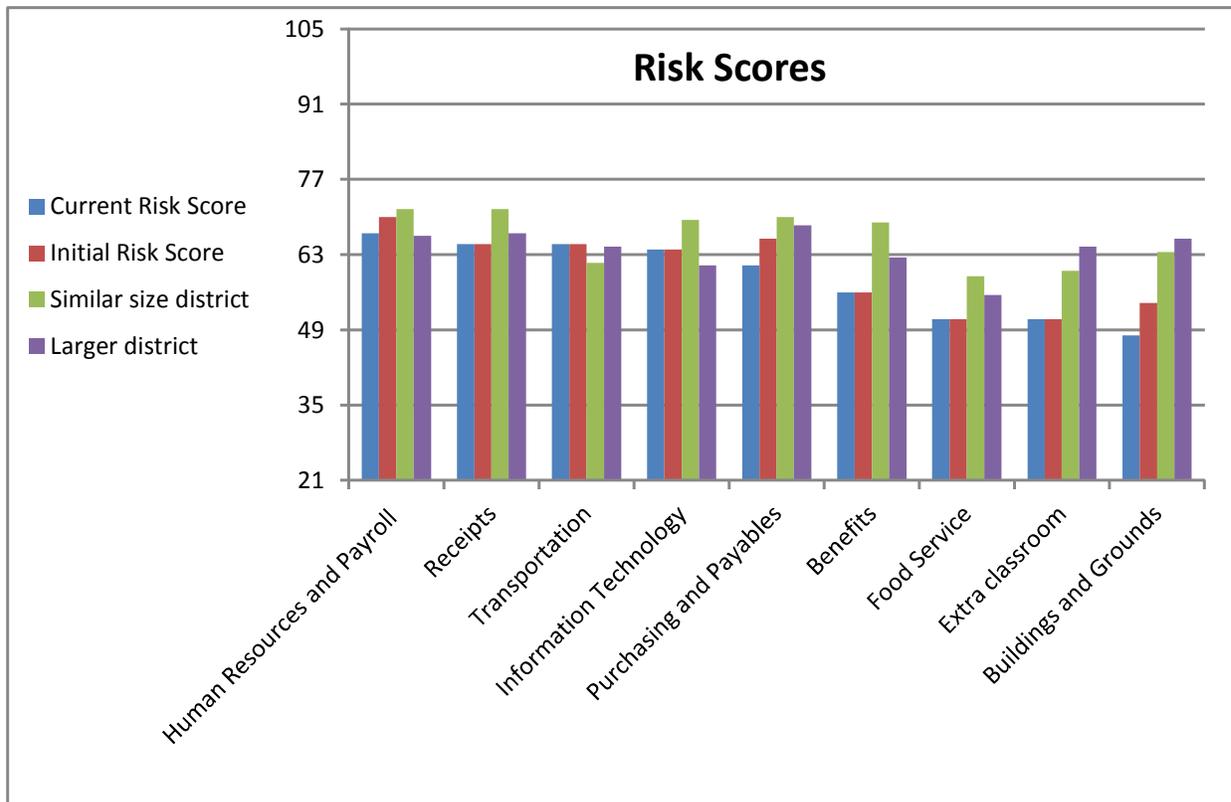
**It should be noted that not all of these variables can be controlled by the District. For instance, the dollar volume for receipts, payables, and payroll will always be high. Therefore, even with perfect controls these areas would not be considered low risk. This should be taken into consideration 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	Current Risk Score		Comparison to similar size Districts	Comparison to larger size Districts
		Score	Level		
Human Resources and Payroll	70	67	Medium	72	67
Receipts	65	65	Medium	72	67
Transportation	65	65	Medium	62	65
Information Technology	64	64	Medium	70	61
Purchasing and Payables	66	61	Medium	70	69
Benefits	56	56	Medium	69	63
Food Service	51	51	Medium	59	56
Extra classroom	51	51	Medium	60	65
Buildings and Grounds	54	48	Low	64	66



Human Resources and Payroll - Risk Score: 67

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 our original assessment:

- 1) The hiring of a second payroll clerk, which adds another level of segregation over payroll duties.

Previously reported findings and recommendations remaining unresolved:

- 1) Observation: When employees resign or retire, there is no formal exit interview performed by personnel.
Recommendation: There are occasions when employees leaving the District will have valuable insight about the procedures of the District. It is common for staff to not want to “make waves” while they are employed, but after a resignation they may be willing to make insightful suggestions. In a more extreme scenario, an employee who may have information regarding a possible fraud would be more likely to become a whistle blower post employment.
- 2) Observation: Based on our understanding; in the event of a payroll check not being claimed by the employee it would be returned to the Payroll Clerk.
Recommendation: If a payroll check is unclaimed or is returned to the District via mail, it should go to the Treasurer or Human Resource Department, not the Payroll Clerk. The responsible person should then follow up on the returned payroll check to determine why it was unclaimed.

New findings and recommendations:

- 1) Observation: We noted that the Payroll Clerk was editing her own employee information (deductions, exemptions).
Recommendation: Payroll Clerks should be prohibited from editing their own information. We first recommend that the Payroll Clerk obtain written approval from the Assistant Superintendent for Business, or the Treasurer about the needed change. We then recommend that the actual change be made by the other Payroll Clerk.

Human Resources and Payroll (continued)

New findings and recommendations:

- 2) Observation: We noted, on some occasions, the payroll module of Finance Manager was being used as a net check calculator. The clerk would edit an employee's information, such as deductions, to determine the change in the net check. In a worst case scenario, the change could be accidentally saved or even generated.
Recommendation: Finance Manager should only be used to account for financial activities of the District. It should not be used a "what if" calculator. If needed, employees should contact their tax advisor or there are online websites which allow you calculate your net check.

- 3) Observation: Live paycheck distributions are performed annually by two employees, both whom are involved with payroll.
Recommendation: The live paycheck distribution is an excellent procedure; however, we feel there may be a conflict of interest with the current set up. We recommend that the Accountant or someone with no payroll responsibilities be the second individual of the process. And as with all processes, we recommend both employees sign the distribution sheet as proof of its completion.

- 4) Observation: There is no written preapproval for overtime for clerical staff. The contract states that no overtime payment will be made without advance authorization. Without written advance authorization, it is hard for the District to control the amount of overtime claimed because it is always "after the fact."
Recommendation: We recommend that all overtime be approved in writing in advance. Employees should request the hours and explain why the additional time is needed. This process will provide additional control over overtime hours and ensure those hours are spent properly.

- 5) Observation: The Accountant reviews the quarterly payroll tax returns, however, he does not sign off on the documents indicating his review or approval.
Recommendation: We recommend that all District staff performing any review function sign off to indicate that a review had been completed. This simple procedure will strengthen the District's controls by forcing the reviewer to be more diligent in their review before writing his or her signature on something. We also recommend these backup documents be kept filed away.

Conclusion:

We have performed an intensive review of Human Resources and Payroll for the year ending June 30, 2012. Our report noted several minor weaknesses, as described above, as well as positive improvements such as the addition of the second payroll clerk. Based on our findings we have decreased our risk score to 70 from 67. 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 our original assessment:

- 1) The Purchasing Agent's signature disk is now kept in a locked drawer.
- 2) The final ED Data purchase orders are now compared to the initial ED Data requisitions. This process will ensure that the items to be ordered agree to what the Purchasing Agent approved.

Previously reported findings and recommendations remaining unresolved:

- 1) Observation: Accounts payable checks are printed using EDGE software. After checks are printed, the user is prompted to post checks. If the user selects "no" the checks will not be posted to Finance Manager, yet the live checks would have already been printed.
Recommendation: This is a difficult weakness to control without the use of prenumbered check stock. The District has controls in place, such as bank reconciliations and management review, that could detect a cashed fraudulent check that was printed and not posted to Finance Manager; however it would not prevent it from occurring. The District intends to upgrade Finance Manager so the check printing process will be done through one system.

New findings and recommendations:

None.

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 and as a result we were able to lower our risk score to 61 from 66. The risk level of Medium is unchanged.

Revenues and Accounts Receivable - 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 our original assessment:

None.

Previously reported findings and recommendations remaining unresolved:

None.

New Findings and Recommendations:

- 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 Accounts Receivable 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

Transportation - Risk Score: 65 *(continued)*

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 our original assessment:

None.

Previously reported findings and recommendations remaining unresolved:

None.

New Findings and Recommendations:

None.

Conclusion:

No major changes were noted during our review. The risk level remains unchanged at *Medium Level*.

Information Technology - Risk Score: 64

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*.

Significant internal control improvements made since our original assessment:

None.

Previously reported findings and recommendations remaining unresolved:

None.

New Findings and Recommendations:

None.

Conclusion:

No major changes were noted during our review. The risk level remains unchanged at *Medium Level*.

Benefits - Risk Score: 56

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 our original assessment:

None.

Previously reported findings 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.

New Findings and Recommendations:

None.

Conclusion:

The risk level remains unchanged at *Medium Level*. Although, we did not note any major deficiencies, we recommend this area for our next intensive review. Other districts have asked us to look at Benefits because it is an area that is commonly overlooked due to its size relative to other areas. Furthermore, because of its nature, benefits is usually handled by one employee. We think it would be beneficial to the District to have an intensive area performed in this area.

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 our original assessment:

- 1) The process over facility use is handled more effectively. Invoices are generated within a week after the event. Collections have also improved, because renters will not be able to renew if there is a carryover balance from the previous event. We still however, would like to see the District paid in full before any event.
- 2) District vehicles are now assigned to an individual employee. The employee is responsible for the vehicle.

Facilities and Capital Assets *(continued)*

- 3) The department is reducing the amount of inventory of materials on hand, due to the fact materials can be ordered and delivered within a day. This process can reduce any potential waste and shrinkage.

Previously reported findings and recommendations remaining unresolved:

None noted.

New Findings and Recommendations:

- 1) Observation: We noted the responsibility of entering work order information into School Dude fell on the Director of Facilities and his secretary. And because of various constraints, the process has become inconsistent.
Recommendation: Tracking jobs using School Dude is an excellent tool that will assist, budgeting time for future jobs, and most importantly accounting for employee work hours. We recommend each employee be responsible for tracking his or her time each day. This will ensure the information in School Dude is consistent and allow the Director of Facilities to oversee and review jobs more effectively and efficiently.

Conclusion:

Due to the changes we noted during our review, the risk score was reduced from 67 to 48 and the risk level is reduced to *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*.

Significant internal control improvements made since our original assessment:

None.

Previously reported findings and recommendations remaining unresolved:

None.

New Findings and Recommendations:

None.

Food Service - Risk Score: 51 *(continued)*

Conclusion:

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 our original assessment:

None noted.

Previously reported findings and recommendations remaining unresolved:

None noted.

New Findings and Recommendations:

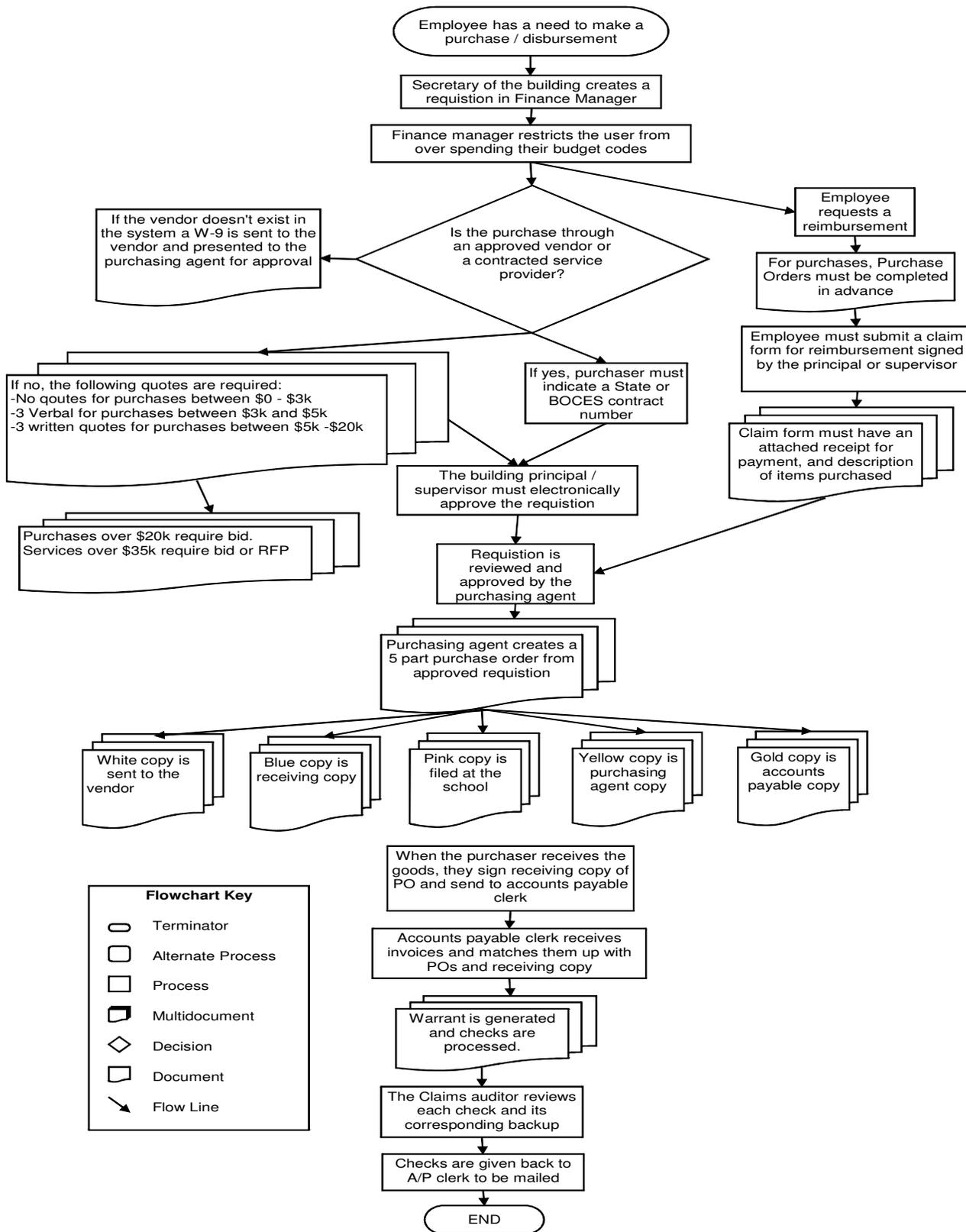
None noted.

Conclusion:

No major changes were noted during our review. The risk level remains unchanged at *Medium Level*.

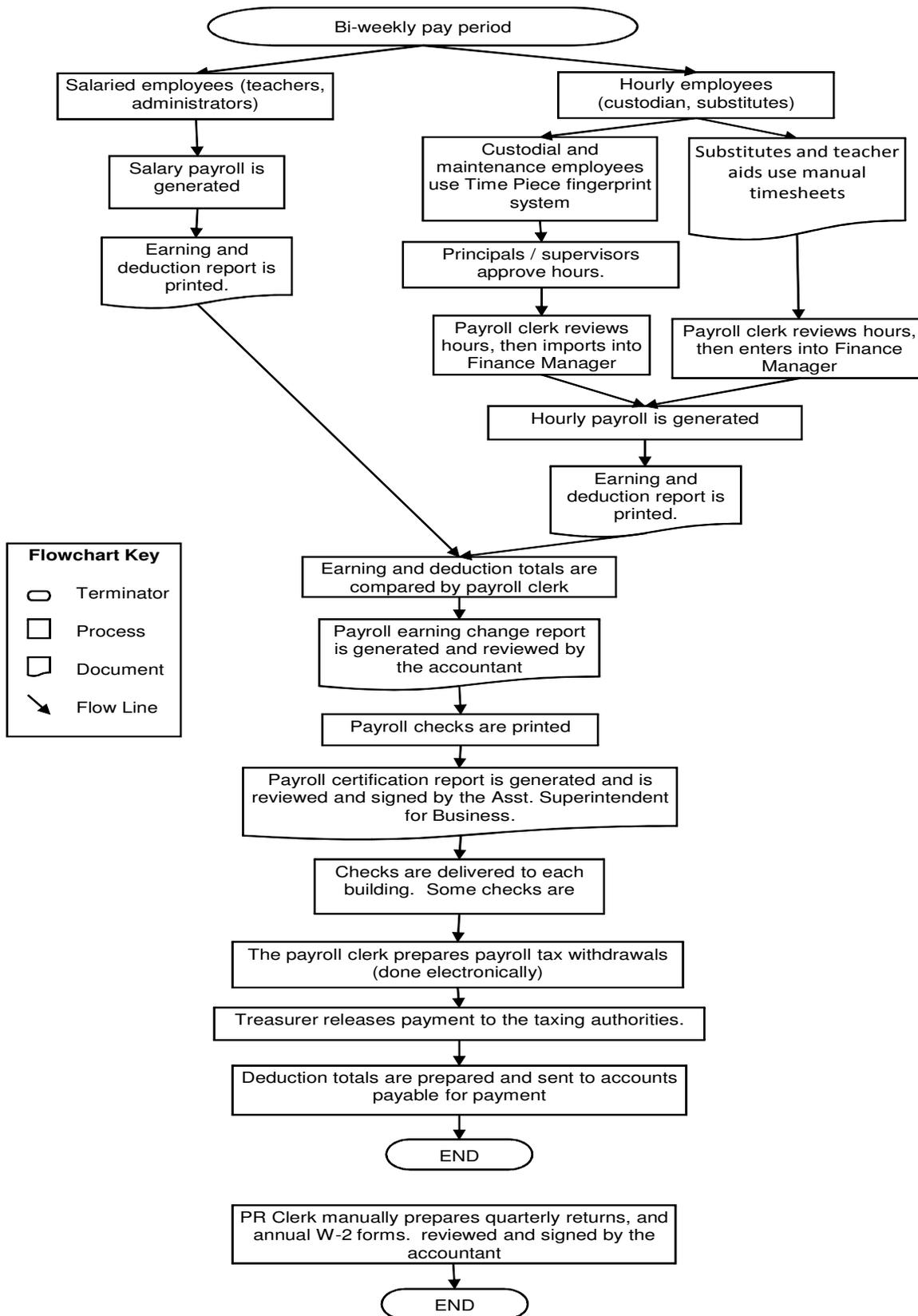
Chappaqua Central School District

Flow Chart – Purchasing and Payables



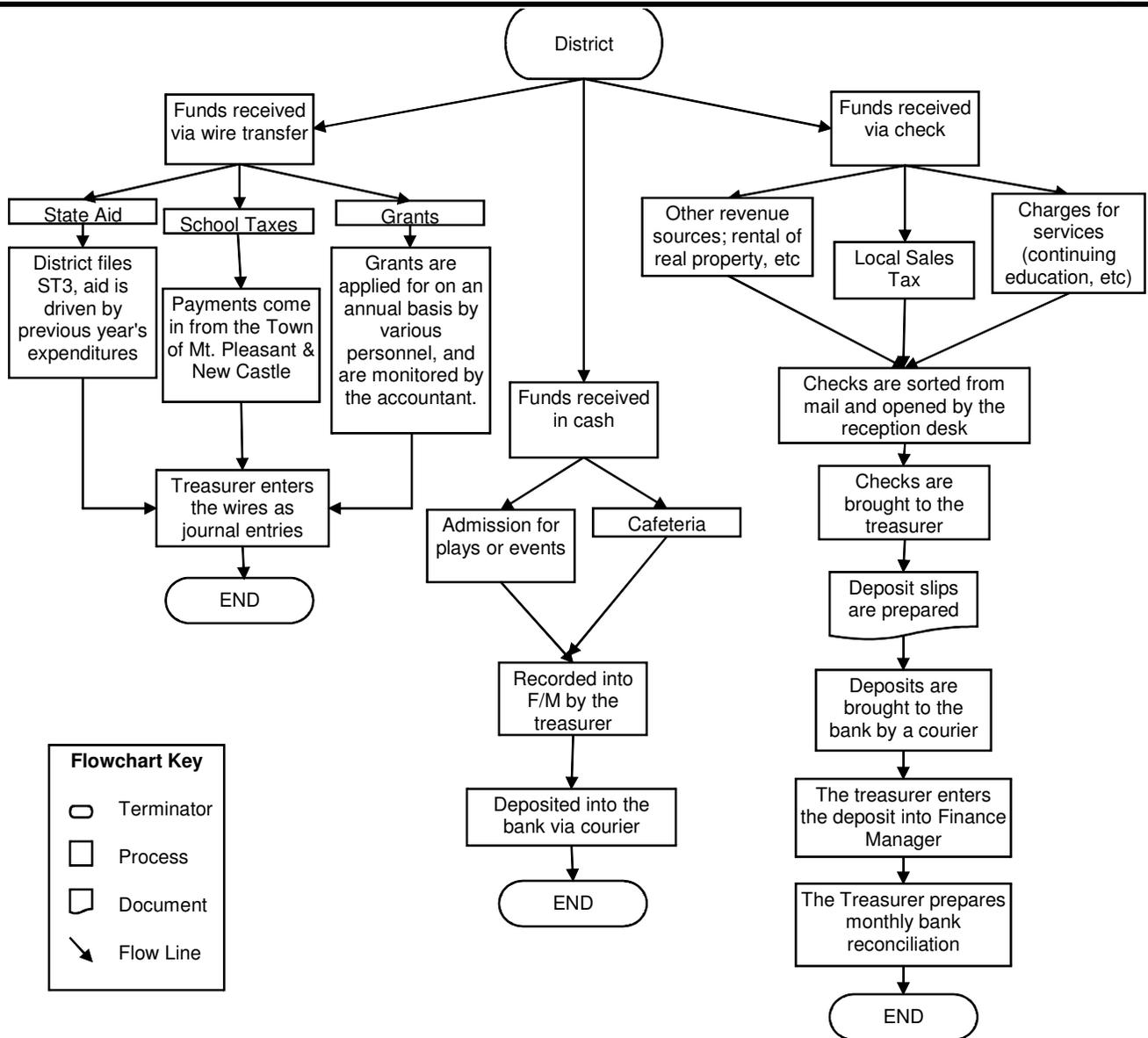
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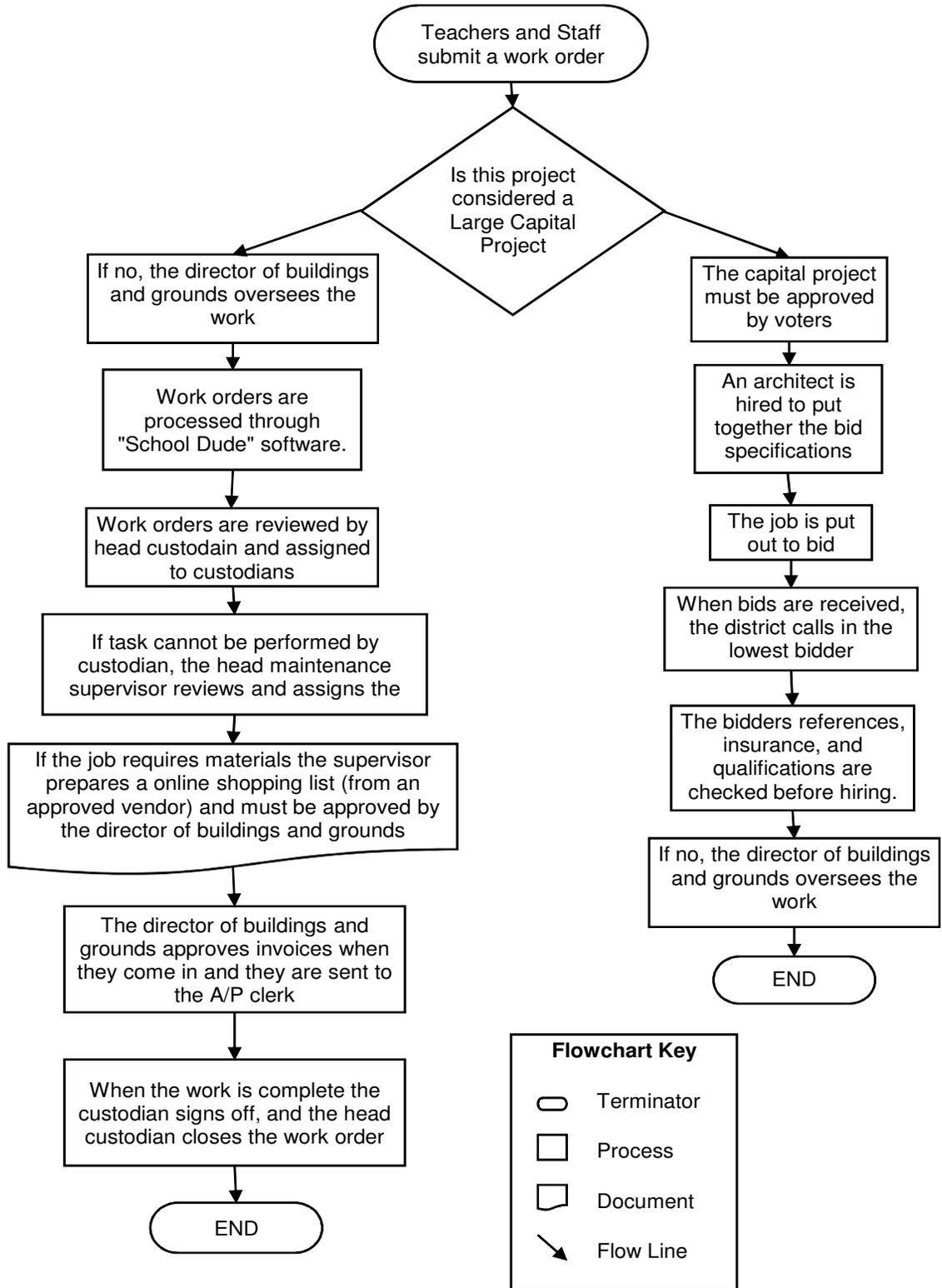
Flow Chart – Human Resources and Payroll



Chappaqua Central School District

Flow Chart – Receipts





Chappaqua Central School District

Flow Chart – Food Service

