



a community for learning

Chappaqua Central School District

**Risk Assessment Report
For the Year Ending June 30, 2011**

Chappaqua Central School District

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

We have performed a Risk Assessment, as agreed to by the Chappaqua Central School District (the District) for the year ended June 30, 2011. The purpose of this engagement is to ensure compliance with applicable New York State laws and regulations.

This agreed upon procedure was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of the specified users of the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose of which this report has been requested or for any other purpose.

Our Risk Assessment consisted of the following procedures:

1. Interviews of key personnel, including top administration, mid level management and business office employees.
2. Observation of daily operational procedures.
3. Evaluation of forms and documentation used in the daily business processes.
4. Evaluation of internal controls, policies, and procedures.
5. Review of all audits and management letters issued by the external auditors, internal auditors, as well as the New York State's Comptroller's office.
6. Evaluation of technology used by the District, as well as the security of the technology.

We were not engaged to, and did not perform an audit, the objective of which would be the expression of an opinion on the specified elements, accounts, or items. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the specified users, as identified above, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

Larchmont, New York
November 12, 2010

Chappaqua Central School District

Executive Summary

The results of our risk assessment revealed good overall internal controls. However, we did find some internal control weaknesses and areas for improvement.

The risk scores and our recommendations for an intensive review are summarized below:

	Current		Recommendation
	Score	Level	for next
			intensive review
Human Resources and Payroll	70	Medium	Completed- 6/30/2008
Purchasing and Payables	66	Medium	✓
Receipts	65	Medium	
Transportation	65	Medium	
Information Technology	64	Medium	
Benefits	56	Medium	
Buildings and Grounds	54	Medium	
Food Service	51	Medium	Completed- 6/30/2010
Extraclassroom	51	Medium	Completed- 6/30/2009

A summary of our findings are shown below. These findings as well as our recommendations are explained further in the body of this report.

1. The Purchasing Agent's signature disk should be kept in a locked desk drawer.
2. The District does not require a security deposit or prepayment for facility rentals.
3. The benefits department should not receive benefit reimbursement payments, if they are also invoicing and tracking the activity.
4. The Personnel Department does not perform a formal exit interview.
5. Unclaimed payroll checks should not be returned to the Payroll Clerk.

A summary of proper existing procedures and internal controls noted during our review are as follows (please note, these are just a sample of 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 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. Insurance invoices are reviewed each month by the benefits clerk and assistant superintendent for business.

Executive summary (continued)

8. 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.
9. Surprise payroll check distributions are done once per year.
10. Gas Boy software is used at the gas pumps to secure and monitor the District's vehicle fuel usage.
11. The building alarm system reports are reviewed each month to ensure the custodial staff is "clocking in/out" properly.
12. Technology equipment is tracked by type and location. District limits websites such as Facebook, music sharing sites, etc.
13. Expenditures are compared to budget line items. Variances are investigated.
14. Each pay period a change report is printed and reviewed by the accountant and Assistant Superintendent for Business.
15. At the start of each school year, a master payroll report is printed and reviewed by the accountant and Assistant Superintendent for Business.

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*

Seth and Joan Corwin, *Chappaqua Transportation*

Vincent Savino, *Health Benefits*

Cathy Ashe, *Director of Food Service*

Christopher Weir, *Claims Auditor*

Tom Cardellicchio, *Assistant Superintendent of Personnel*

Laura Ippolito, *Extra Classroom Activities*

Alex Djordjevic, *Accountant*

Suzann Schriro, *Payroll Clerk*

Christine Brundage, *Accounts Payable Clerk*

Claudine Howson, *Accounts Payable – Special Ed*

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.

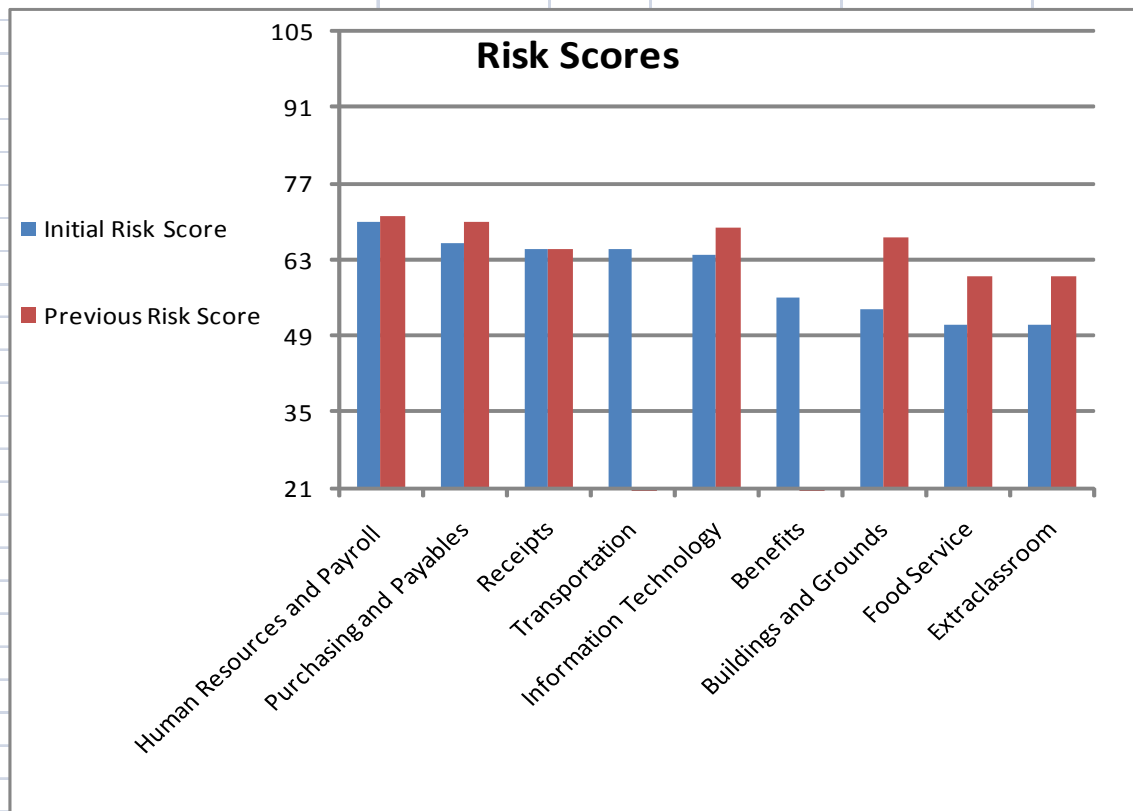
**It should be noted that not all of these variables can be controlled by the District. For instance, the dollar volume for receipts, payables, and payroll will always be high. Therefore, even with perfect controls these areas would not be considered low risk. This should be taken into consideration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

Chappaqua Central School District

Risk Rating Results

In the illustrations below we list each area, the date an intensive review was performed, as well as its assigned risk score and level:

Area of Review	Previous Risk Score	Current Risk Score		Comparison to similar size District	Comparison to larger size District
		Score	Level		
Human Resources and Payroll	71	70	Medium	72	71
Purchasing and Payables	70	66	Medium	67	73
Receipts	65	65	Medium	72	71
Transportation	-	65	Medium	65	58
Information Technology	69	64	Medium	67	72
Benefits	-	56	Medium	73	65
Buildings and Grounds	67	54	Medium	66	61
Food Service	60	51	Medium	66	52
Extraclassroom	60	51	Medium	68	52



The previous risk scores presented were prepared by the District's previous internal auditor.

HUMAN RESOURCE AND PAYROLL - Risk Score: 70

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 and recommendations are as follows:

- 1) Finding: 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) Finding: Unclaimed payroll checks are 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 Accountant, not the Payroll Clerk. The Treasurer should then follow up on the returned payroll check with the appropriate employees.

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.

PURCHASING AND PAYABLES- Risk Score: 66

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. Our finding is as follows:

- 1) Finding: The Purchasing Agent’s signature disk is kept in his desk drawer unlocked. Although the disk cannot be used without the proper access rights to Finance Manager, this sensitive instrument should be safely guarded when not in use.
Recommendation: The signature disk should be kept in a locked drawer or cabinet only accessible by the Purchasing Agent.

RECEIPTS - Risk Score: 65

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.

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.

We recommend that on an annual basis that 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.

INFORMATION TECHNOLOGY - Risk Score: 64

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*.

BENEFITS - Risk Score: 56

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:

- 1) Finding: 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.

In addition to this finding, a potential risk for the Benefit area is the possibility of benefits being paid for individuals who are no longer eligible. Although the current procedures should minimize this risk, the District should remain diligent in confirming eligible individuals frequently.

BUILDINGS AND GROUNDS - Risk Score: 54

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. During our review we noted the following area for improvement:

- 1) Finding: Buildings and Grounds is responsible for approving and invoicing third parties for District facility usage. It was noted that the District does not require a security deposit, nor does it require payment in full before the building is used for the event.
Recommendation: In other districts, a security deposit and payment in full is required 5 days before an event takes place. This procedure ensures the district is covered for damages, and receives payment in full, eliminating the need for tracking accounts receivable. We also recommend that an employee from the business office review School Dude to confirm that every event is being invoiced properly.

FOOD SERVICE - Risk Score: 51

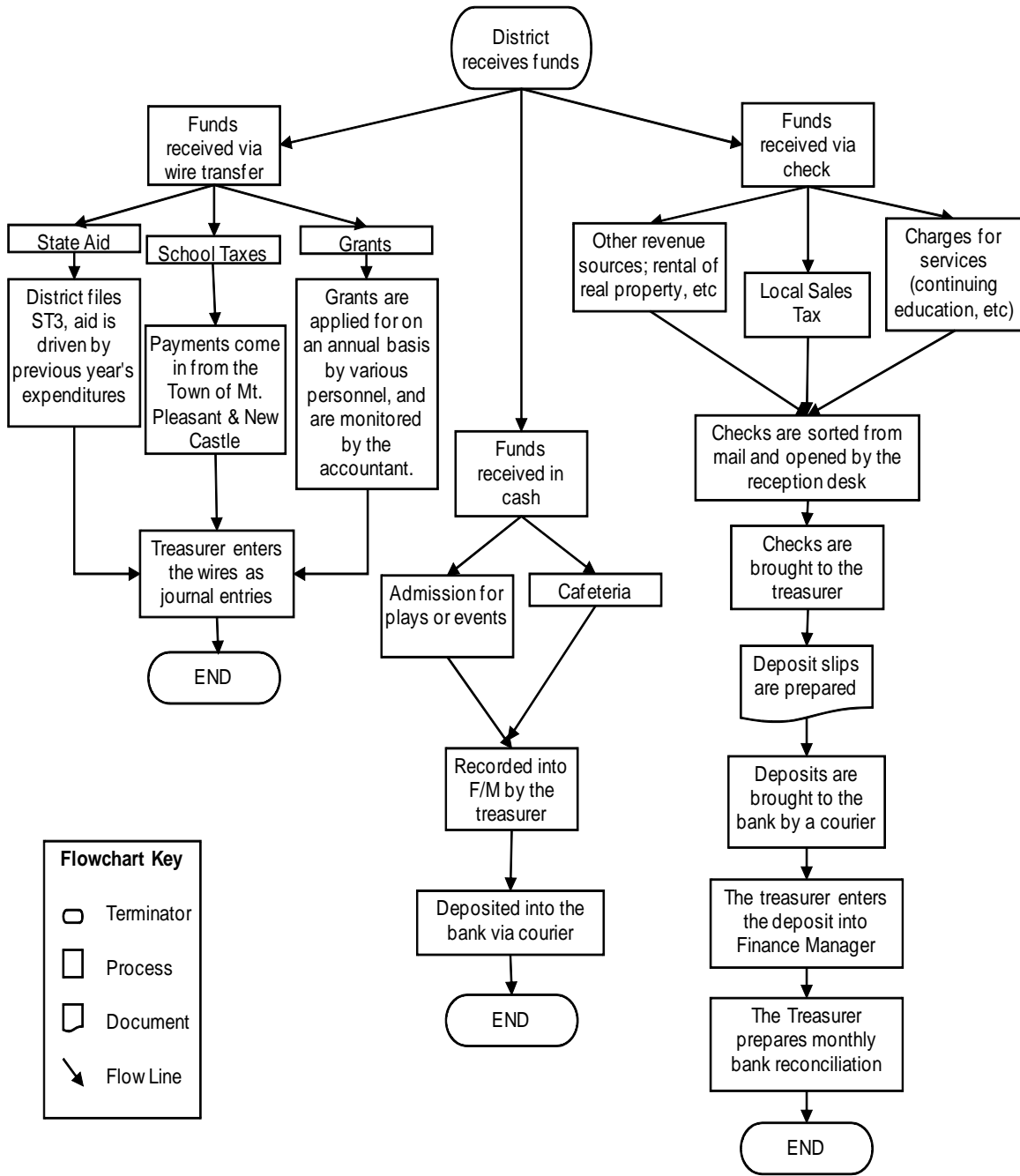
Food service is run by an independent company (Aramark). This alleviates the need for the District to manage this area of operations. The District has an employee responsible for tracking and reporting Free and Reduced Lunch students. Because Aramark handles the majority of the food program, and provides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

EXTRA CLASSROOM ACTIVITIES – 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*.

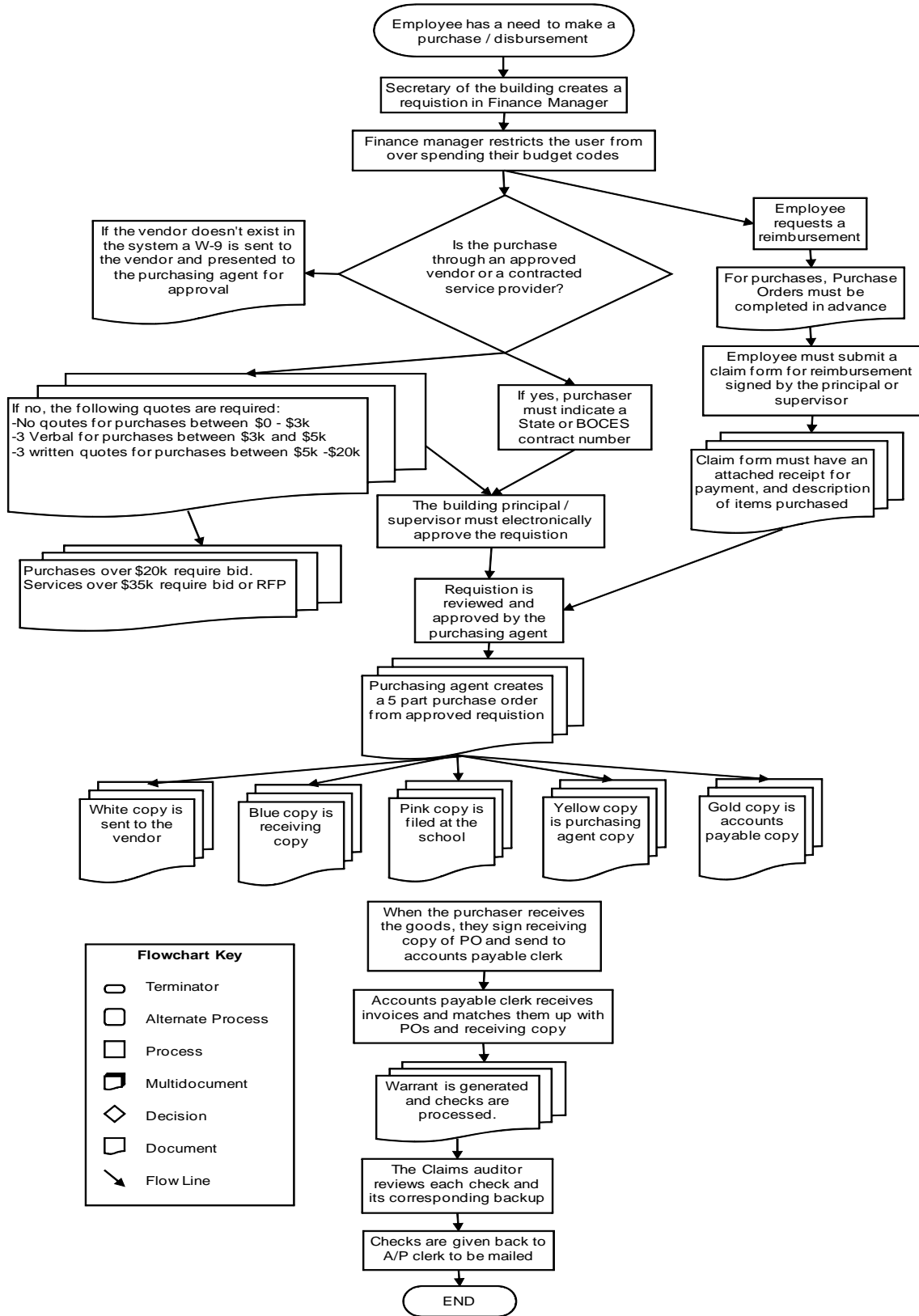
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Flow Chart of Receipts Cycle



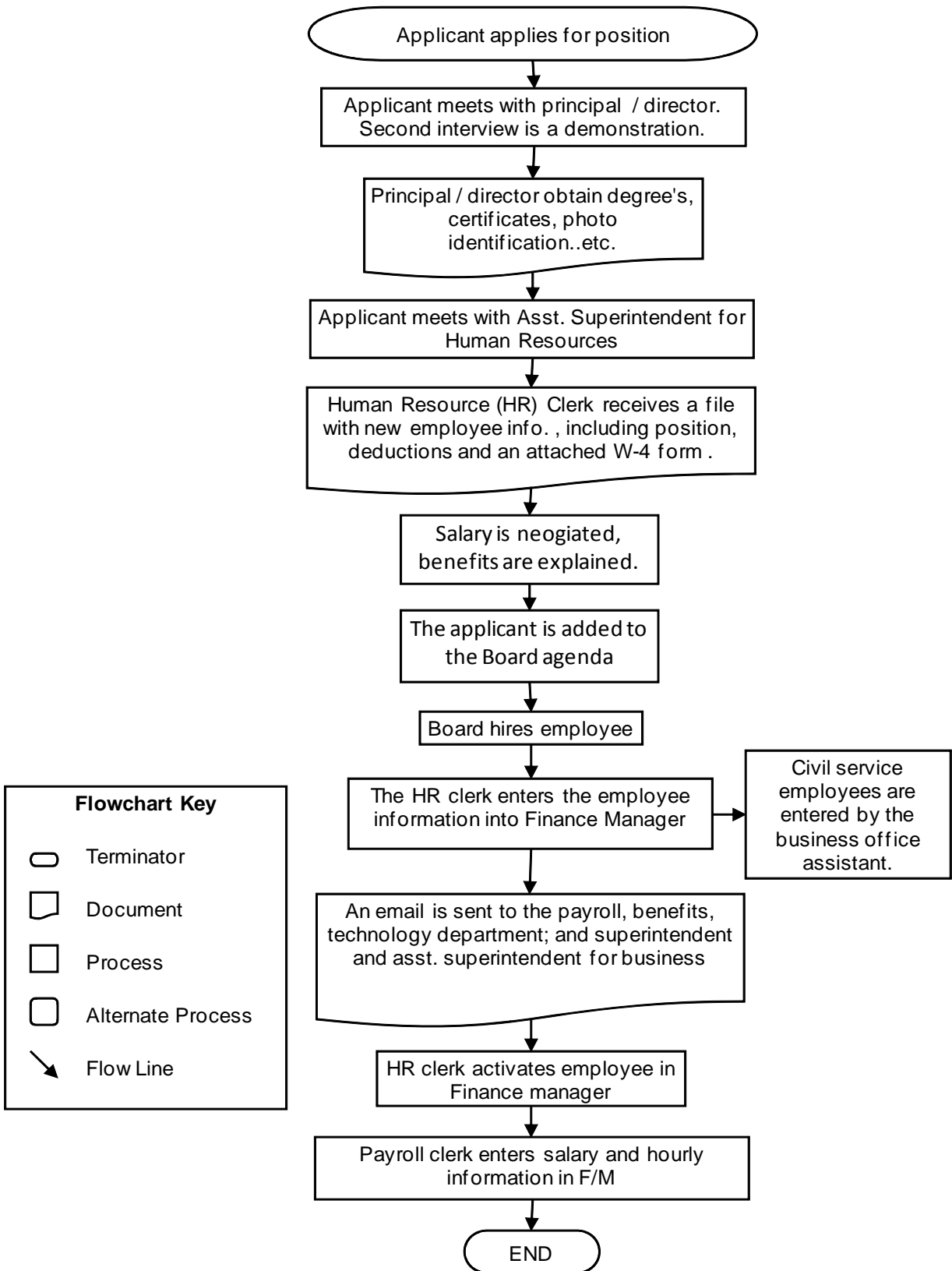
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Flow Chart of Purchasing and Accounts Payable Cycle



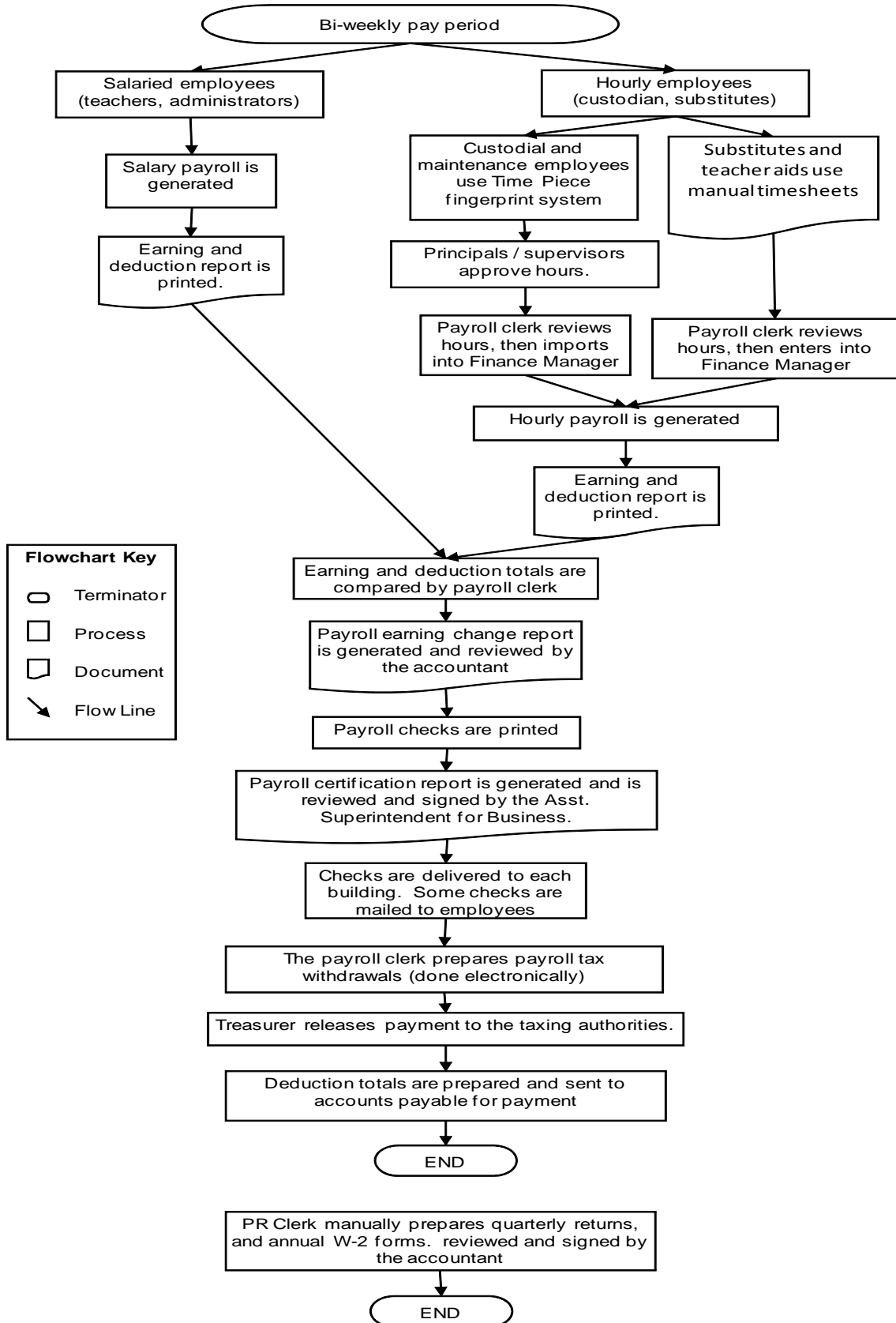
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Flow Chart of Human Resource Cycle



Chappaqua Central School District

Flow Chart of Payroll Cycle



Chappaqua Central School District

Flow Chart of Buildings and Grounds Cycle

