Grand Island Central School District

Risk Assessment, Recommendations and Findings for 2020

Grand Island Central School District

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TRONCONI SEGARRA & ASSOCIATES LLP
Certified Public Accountants
Business Consultants

To the Audit Committee of the Board of Education
of the Grand Island Central School District

We are pleased to report on the annual risk assessment of the Grand Island Central School District (the "District"). The purpose of our engagement is to assist you in the development of a risk assessment of District operations, and provide recommendations to strengthen controls and reduce the identified risks. This report was developed from inquiry, observations and tests of internal control. Due to the COVID-19 pandemic, we performed our testing remotely. We obtained all requested supporting documentation and performed interviews by video conference to test key controls within the processes, where applicable and appropriate.

The District's risks are the risks that an action or event will adversely affect its ability to successfully achieve its objectives. The Risk Assessment section of the report analyzes the significant risks that were identified during our engagement.

For purposes of this report, internal control is a process affected by the Board of Education (the "Board"), department heads and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting and safeguarding of assets. We have evaluated the District's current internal controls and have provided our risk assessment and a set of recommendations for strengthening controls and reducing identified risks.

As noted, the purpose of our engagement was to assist you in improving the internal controls and reducing the risks that face your District. However, it is ultimately your responsibility to assess the adequacy of your risk management system. In performing our engagement, we relied on the accuracy and reliability of information provided by District personnel. We have not audited, examined, or reviewed the information, and express no assurance thereon.

The accompanying comments and recommendations are intended solely for the information and use of the Audit Committee, the Board, department heads, and others within the District and should not be used for any other purpose.

We appreciate the opportunity to serve you and thank the individuals in your District for their cooperation. We have already discussed many of these comments and suggestions with various District personnel, and we will be pleased to discuss them in further detail at your convenience. Through our ongoing involvement with you as a client and our knowledge of your processes, we would be pleased to perform any additional studies of these matters, or to assist you in implementing the recommendations.

Tronconi Segarra & Associates LLP

Williamsville, New York
March 23, 2021

Risk Assessment

Grand Island Central School District

Risk Assessment

Overview

The Grand Island Central School District's (the "District") risks are the risks that an action or event will adversely affect its ability to successfully achieve its objectives. During our engagement we became aware of various sources of risk that impact the District. We evaluated these risks by using two distinct assessments of impact and likelihood. A simple rating scale has been developed for this purpose. The rating scale ranges from minor to significant impact, and low to high likelihood, using a 3-point scale.

Impact refers to the extent of the consequences or implications if the risk does occur. To assess impact, we have determined how much of an impact the risk has if it does occur:

- A minor impact suggests that the risk would not have important implications on the District.
- A moderate impact suggests that the risk could have implications for the District's ability to succeed.
- A significant impact suggests that the risk would have important implications on the District.

Likelihood refers to the probability that the risk may occur given the current context of the District. To assess likelihood, we have determined how likely it is that the risk will occur in the future, given what is currently done to manage said risk:

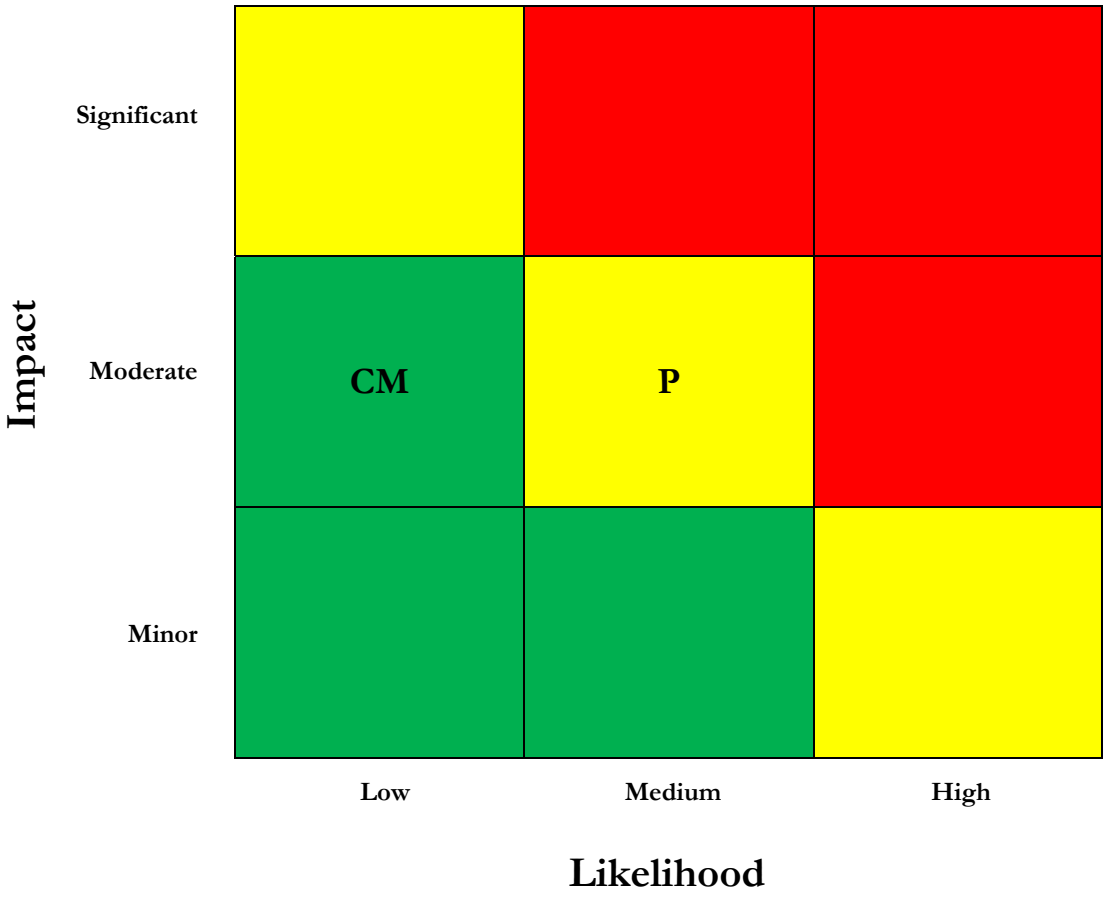
- A low likelihood suggests that the risk is unlikely to occur, given its nature and current risk management practices in place.
- A medium likelihood of occurrence suggests that the risk has a moderate probability of occurrence.
- A high likelihood of occurrence suggests that the risk is likely to occur, despite the current risk management practices in place.

The Risk Management Tolerance Model and the Risk Assessment Matrix that follow summarizes these risks and assesses their impact and likelihood.

We have developed the risk assessment around significant financial transaction cycles as a means by which the associated risks can be easily understood and managed. The Internal Control Recommendations section of this report presents recommendations with more detail information regarding criticality and implementation timeliness. The cycles or areas that have been evaluated are as follows:

- Cash Management (CM)
- Purchasing, Accounts Payable, and Disbursements (P)

Risk Management Tolerance Model



Risk Assessment Matrix

Cycle	Risk Assessment Based on Procedures Performed	Impact	Likelihood
CM	We noted low overall risk in the cash management cycle.	Moderate	Low
P	We noted moderate overall risk in the Purchasing, Accounts Payable, and Disbursements cycle.	Moderate	Medium

Internal Control Recommendations

Grand Island Central School District

Internal Control Recommendations

Overview

Internal control recommendations represent those areas that afford department heads of the District the opportunity to improve financial reporting and internal controls, to better safeguard District assets, and/or to more efficiently or accurately record, summarize, and report financial transactions and information. They also represent those areas that may improve efficiency of operations and accounting functions, potentially resulting in costs savings.

We have provided a criticality rating and an implementation timeline for each internal control recommendation. Criticality ratings considered included urgent, important, and routine. The implementation timelines considered were short-term and long-term, reflecting the effort and time required to implement the applicable recommendation while factoring in the criticality assigned thereto. Short-term refers to a finding that we believe can be corrected within one year. Long-term refers to a finding that may require changes to organization, systems and/or procedures that may require over one year to effectuate change.

As a result of the procedures we performed, there were six (6) total recommendations. The number of recommendations in each internal control area is as follows:

		Criticality			Timeline	
Internal Control Area	Number of Recommendations	Routine	Important	Urgent	Short-Term	Long-Term
Cash Management	1	1	0	0	1	0
Purchasing, Accounts Payable and Disbursments	5	3	2	0	5	0
Total Recommendations	6	4	2	0	6	0

RECOMMENDATION 1:

Criticality: **Routine**
Timeline: **Short-Term**

Finding: Management is currently not performing and reviewing bank reconciliations on a timely basis.

Background: We noted that bank reconciliations are currently being performed and reviewed approximately 45 days after month end. Bank reconciliations should be completed as soon as possible, ideally before the end of the following month.

Rationale:

Impact: *Moderate* - If there was to be an instance in which the bank account did not properly reconcile, it would not be detected on a timely basis. This could have a moderate impact on the District.

Likelihood: *Low* – Due to the untimely reconciliation of the District's bank accounts, there is an increased risk for an error to occur. However, the District has not encountered significant issues with the current timing of the bank reconciliation preparation and review process.

Recommendation: We recommend all reconciliations be completed and reviewed more timely, ideally before the end of the following month.

RECOMMENDATION 1:

Criticality: **Important**
Timeline: **Short-Term**

Finding: The District does not currently have a process in place to ensure all changes to the Master Vendor File are reviewed. Additionally, there appears to be a lack of segregation of duties as the Accounts Payable Clerk can make vendor changes in the NVision system and also is involved in the payment process.

Background: Controls over the District's master vendor file are essential in preventing fraud involving accounts payable (i.e., payments to unauthorized or fictious vendors). Changes to the Master Vendor File (e.g., vendor names, addresses etc.) maintained in NVision are currently controlled by the Accounts Payable clerk. All new vendors require a completed W-9 form and only the Accounts Payable Clerk has access to make changes to the Master Vendor File. However, the design of this control is not sufficient to ensure that all changes made to the Master Vendor File have been authorized, since an employee with access to the master vendor file can execute a change without presenting it to the Assistant Superintendent for Finance & Support Services for review and approval.

Rationale:

Impact: *Significant* - Unauthorized changes to the Master Vendor File could have a significant financial and/or reputational impact on the District.

Likelihood: *Medium* - In the absence of strong controls over the Master Vendor File, the likelihood that an unauthorized change to the vendor master file could occur but remain undetected is deemed to be at a medium level.

Recommendation: The Assistant Superintendent for Finance & Support Services should perform a periodic review of the master vendor file change report from NVision to ensure that all changes have supporting documentation. She should sign and date the change report as evidence of her review. If the validity of a vendor is questioned, an appropriate employee should take steps to verify the vendor's existence and accuracy.

RECOMMENDATION 2:

Criticality: **Routine**
Timeline: **Short-Term**

Finding: The Purchasing agent has not established a purchasing calendar.

Background: Based on discussions with the Accounts Payable Clerk, the District does not maintain a physical purchasing calendar as suggested by New York State Education Department Purchasing and Expenditures guidelines.

Rationale:

Impact: *Minor:* Purchases and bids are typically completed at the same time each year, year over year. As such, although not written the practice of cyclical billing appears to be occurring; therefore, the impact on the District is deemed to be low.

Likelihood: *Medium* – It does not appear that a physical purchasing calendar is maintained, as such, any associated risks have a medium likelihood to occur.

Recommendation: We recommend implementing a purchasing calendar to facilitate the purchasing function through cyclical bidding, and to help coordinate it on a weekly, monthly, and yearly basis. The use of a purchasing calendar can allow for the purchases of particular types of items to be planned to occur at times when the best prices can be obtained and prompt deliveries can be made so that the requester will have ordered items available when they are needed.

RECOMMENDATION 3:

Criticality: **Routine**
Timeline: **Short-Term**

Finding: The District does not have procedures to follow up at regular intervals on outstanding purchase orders over 30 days old.

Background: Based on discussions with the Accounts Payable Clerk, the District is not currently performing follow up at regular intervals on outstanding purchase orders over 30 days old to determine if the items were received.

Rationale:

Impact: *Minor* – Regular review of outstanding purchase orders can ensure that unfilled orders are timely fulfilled and/or that orders are properly received and accounted for by the District.

Likelihood: *Low* – As the District does perform a periodic review of aged purchase orders during the year, the likelihood is assessed at low.

Recommendation: We recommend that the District review the purchase order aging report on a more regular basis to determine if any action needs to be taken. Purchase orders that are no longer valid can be voided or follow-up action can be taken for valid purchase orders.

RECOMMENDATION 4:

Criticality: **Routine**
Timeline: **Short-Term**

Finding: The District does not formally document the completion of certain activities required by the District's procurement policies.

Background: Based on discussions with the Assistant Superintendent for Finance & Support Services, the District does not currently formally document verbal quotes that are obtained for purchases between $500 - $1,500. Additionally, the District does not currently formally document if a vendor is a "Sole Source" provider and, therefore, quotes/bids were not obtained. These could be formally documented within the "Vendor Recommendation" form that is currently used to document written quotes proposals as evidence that verbal quotes were in fact obtained and/or that the vendor is a "Sole Source" provider.

Rationale:

Impact: *Moderate:* Without required documentation, it is possible that three verbal quotes were not obtained for purchases between $500 - $1,500 or that a vendor is not properly considered to be a "Sole Source" provider. This could have an overall moderate impact on the District.

Likelihood: *Medium* – There is a medium likelihood that, without required documentation, it is possible that three verbal quotes were not obtained for purchases between $500 - $1,500 or that a vendor is not properly considered to be a "Sole Source" provider.

Recommendation: We recommend that the District require written and/or electronic documentation be maintained for verbal quotes and instances where a vendor is considered a "Sole Source" provider.

RECOMMENDATION 5:

Criticality: **Important**
Timeline: **Short-Term**

Finding: The District does not require dual signatures on checks over a specified threshold amount, as suggested within the New York State Education Department Reference Manual Appendix 6 – Selected Internal Control Practices for School Districts.

Background: It is good business practice to utilize dual signatures on checks over a specified threshold amount to ensure higher dollar checks are approved by two separate individuals. When dual signatories are required, the risk of fraudulent checks and misappropriation of District assets is greatly minimized.

Rationale:

Impact: *Moderate:* Due to the fact that dual signatures on checks over a specified dollar threshold is not required, there is an increased risk of misappropriation of District assets. This could have implications on the District if fraudulent higher dollar checks are written regularly throughout a given year.

Likelihood: *Medium* – As dual signatures are not required on checks, there is an increased likelihood that the risks discussed above occur. However, the District appropriately segregates the check printing and check signing duties between two individuals which reduces the likelihood of occurrence to a medium level.

Recommendation: The District should institute a policy requiring dual signatures on checks over a specified dollar threshold to minimize the risk of fraudulent check signing and misappropriation of District assets.