Grand Island Central School District

Risk Assessment, Recommendations and Findings for 2019

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.

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
April 7, 2020

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:

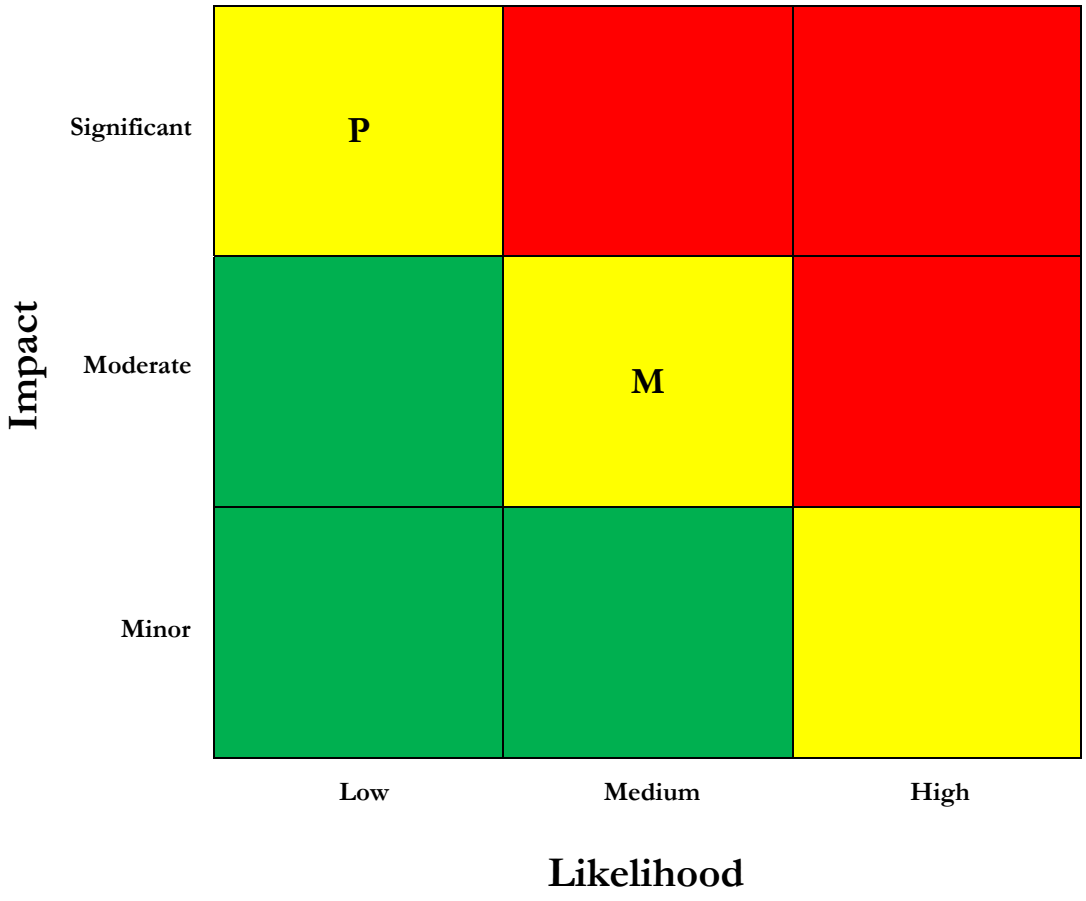
- A low likelihood suggests that the risk is unlikely to occur, given its nature and current risk management practices in place.
- A medium likelihood of occurrence suggests that the risk has a moderate probability of occurrence.
- A high likelihood of occurrence suggests that the risk is likely to occur,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

- Personnel, Payroll and Benefits (P)
- Materials Acquisition and Management (M)

Risk Management Tolerance Model



Risk Assessment Matrix

Cycle	Risk Assessment Based on Procedures Performed	Impact	Likelihood
P	We noted moderate overall risk in the personnel, payroll and benefits cycle.	Significant	Low
M	We noted moderate overall risk in the material acquisition and management 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 nine (9) 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
Personnel, Payroll & Benefits	5	3	2	0	5	0
Materials Acquisition & Management	4	1	3	0	4	0
Total Recommendations	9	4	5	0	9	0

Personnel, Payroll & Benefits (P)

RECOMMENDATION 1

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

Finding: The Business Office has a walk-in vault in the middle of the office which includes blank check stock as well as an additional safe within the vault which holds live checks, signature fobs, and physical cash. The vault within the District Office can be accessed at any time by Business Office employees.

Background: The Accounts Payable Clerk opens the safe at the beginning of the day and locks the safe at the end of the day prior to her departure. Although there is a security camera within the Business Office, it cannot detect activity within the walk-in vault. In addition, the Business Office door is open throughout the day and is accessible to all faculty, students, and staff of the District. The contents of the walk-in-vault includes, but are not limited to, blank check stock for all District accounts as well as a secondary locked safe. This can lead to the opportunity for misappropriation of assets considering the pre-numbered check stock is openly accessible to those on school grounds. Furthermore, there are district employees that have access to MRC toner and the signature plate. However, the District is in the process of implementing key card access to enter the office from the school.

Rationale:

Impact: *Moderate* – The impact is considered moderate as even though there is not a large amount of cash or live checks contained in the value, it would moderately impact the District if such theft were to occur.

Likelihood: *Low* – The surveillance camera would deter fraudulent activity to staff and visitors. In addition, there are mitigating controls to detect the perpetration of fraud or misappropriation of assets such as the positive pay and reverse positive pay services the District receives from their bank.

Recommendation: We recommend that the vault be locked at all times throughout the day and opened by those with the combination only when they need to access items within the vault.

RECOMMENDATION 2

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

Finding: The Assistant Superintendent of Business and Finance signs off on the Payroll Check Register and the Payroll Change Analysis to indicate her approval for each pay period. However, we noted that the Assistant Superintendent does not consistently notate the date in which she reviewed these reports. In addition, based on discussions with the Assistant Superintendent of Business and Finance, we noted on occasion that she does not review the Payroll Change Analysis Report on a timely basis before payroll has been paid.

Background: The Payroll Change Analysis Report is run prior to the posting of payroll and displays any changes to payroll information since the previous pay period such as pay rates, deductions, garnishments, etc. The Payroll Check Register is run after payroll is posted in the District's accounting system, nVision, and displays all payroll checks for that period. Based on the District's Policy, these reports should be reviewed by the Assistant Superintendent of Business and Finance on a timely basis prior to the payment of payroll.

Rationale:

Impact: *Minor* – An error in payroll for individuals can be corrected in following pay periods for all employees.

Likelihood: *Low* – The likelihood that an error occurs in the payroll process during the calculation of payroll within nVision is low as the instance is typically a clerical error.

Recommendation: We recommend the Assistant Superintendent of Business and Finance review the Payroll Change Analysis Report prior to payment of payroll checks to employees on Fridays the week of payroll processing and that her review is consistently notated with the date of review.

RECOMMENDATION 3

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

Finding: The reconciliations of the payroll bank accounts were not performed timely.

Background: The payroll bank account reconciliation for the month ended April 30, 2019 was not reconciled until August 16, 2019. Based on discussions with the Assistant Superintendent of Business and Finance, it was noted that during the month of April there was a system error and checks posted in Trust & Agency that should have been deducted from the payroll account and vice versa. The District worked with BOCES to correct this issue and it was resolved several months later. We noted proper approval by the Assistant Superintendent of Business and Finance; however, the preparation and review of the reconciliation did not occur on a timely basis. Due to the error, bank reconciliations for the subsequent months until August were not prepared and reviewed timely as well.

Rationale:

Impact: *Minor* - There is a minor impact of the payroll checking account reconciliation not being performed timely after month-end. The reconciliation ensures that all payroll funds were properly disbursed and will identify any outstanding (live) payroll checks. As the payroll accounts are only funded to cover the upcoming pay period, any reconciling issues would likely be minor.

Likelihood: *Low* - The likelihood of fraud or asset misappropriation due to the payroll checking account reconciliation not being performed on a timely basis is low. The Treasurer and the Payroll Clerk communicate on any manual checks that are outstanding (live). Furthermore, most checks are direct deposited and thus are directly removed from the payroll checking account.

Recommendation: We recommend that the Treasurer prepare the payroll checking account reconciliation in a timely manner after month-end, which should then be reviewed and approved by the Assistant Superintendent of Business and Finance in a timely manner.

RECOMMENDATION 4

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

Finding: We identified two outstanding aged checks in the April 30, 2019 payroll bank accounts reconciliation that should either be reissued to the payee if the District is aware of a recent address of the payee or be turned over to New York State based on the State's property abandonment rules.

Background: In accordance with the New York State abandoned property rules, the dormancy period for payroll checks is three years after which the outstanding checks should be remitted to the State as abandoned property.

Rationale:

Impact: *Minor* – The State could assess penalties and interest for non-reporting of these checks as abandoned property. The oldest check is dated October 2, 2015, which should have been reported as abandoned property in early 2019. The penalties and interest that could be assessed would likely not be material in this instance.

Likelihood: *Low* – It is unlikely that the State would assess penalties and interest for these two aged checks.

Recommendation: We recommend that the District follow a process to reissue aged checks to the payee or, where appropriate, report the checks to the State under the property abandonment rules.

RECOMMENDATION 5

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

Finding: In an event that the Payroll Clerk is unable to report for her job responsibilities, the District does not currently have a designated backup that is appropriately cross-trained on the new nVision Payroll Module to process payroll.

Background: In February 2019, the District implemented nVision, a new Payroll Module through Finance Manager. Currently, the Payroll Clerk is the only personnel appropriately trained on nVision to process payroll. The Secretary to the Superintendent was previously trained on how to process payroll through the old Finance Manager process, but has not received training for the new nVision module. The District relies on Erie 1 BOCES for training as needed.

Rationale:

Impact: *Moderate* - In the event that the Payroll Clerk was unavailable to process payroll, this would have a moderate impact on the District as payroll processing cannot be late. Erie 1 BOCES would be able to provide assistance and training to properly process payroll, so we have assessed this risk as moderate.

Likelihood: *Low* - There is a low likelihood that the Payroll Clerk would unavailable as she typically does not take vacation or personal days during payroll weeks. In addition, the Payroll Clerk has noted that on the rare occasion of snow days within the District, she will come into the District office to process payroll or could work remotely.

Recommendation: We recommend the District identify an employee that would not cause a segregation of duties conflict to be trained as a backup to process payroll in the event the Payroll Clerk was unavailable. The District should train this employee on the nVision process and include said employee on any NVision payroll trainings for updates to the payroll module.

Materials Acquisition & Management (M)

RECOMMENDATION 1:

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

Finding: The District lacks proper controls and safeguarding over the receipt of materials and supplies.

Background: We observed the receiving room in the middle/high school, which also serves as a janitorial storage room. The door was open which allows for unauthorized access. Furthermore, there were no cameras to mitigate this risk. Located in the room also was a door for a deliveryman to enter and a garage door to allow larger deliveries, both of which were locked. When packages are delivered, if there is no receiving agent in the room, the package will sit out until someone receives it into the system. During our walkthrough, we identified a package that was sitting in the open and when we returned later that day the package was no longer there; there was no evidence of a receiving agent in the room to receive in the package into the system.

Rationale:

Impact: *Moderate* – There could be a moderate impact, depending on the value or volume of the materials received, as theft of inventory can be costly.

Likelihood: *Low* – The likelihood that the risk of loss or theft occurs is low.

Recommendation: We recommend that controls be implemented to safeguard inventory received, including installing a camera, locking the door or adding a barrier to the receiving room to prevent unauthorized access, and consider adding a locked storage unit in the receiving room for the mail courier to place the inventory until a receiving agent can receive and process the inventory.

RECOMMENDATION 2:

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

Finding: The receiving log is maintained as a Google Document which is manipulatable and cannot be verified. Furthermore, the receiving log is not reviewed and reconciled with the inventory received by a person above the receiving agent.

Background: Inventory logged into the Google Document can be unintentionally or intentionally changed, which results in the risk of asset misappropriation. Furthermore, the receiving log is not reviewed and reconciled with the inventory received by a person above the receiving agent

Rationale:

Impact: *Moderate* – There would be a moderate impact if inventory were lost or stolen. Most materials and supplies are ordered before the new year and once the budget is set, which helps to mitigate the risk as there are infrequent deliveries throughout the year.

Likelihood: *Medium* – The likelihood that a loss or theft occurs is medium since the receiving slips are not provided to the Accounts Payable Clerk for a three-way match prior to payment (See *Recommendation #3* below), which is mitigated given the ordering process followed by the District. If another individual reviews all inventory received and entered into the system against the shipping documentation this could assist in mitigating the risk.

Recommendation: We recommend that the District utilize the software used to track inventory receipts to a module of nVision or another inventory management software. Furthermore, all items received into the system should be reviewed by an individual other than the receiving agent, verifying the information input into the software matches the inventory being received.

RECOMMENDATION 3:

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

Finding: The shipping label is not attached to the purchase order by the employee receiving the goods, therefore the Accounts Payable Clerk cannot perform a three-way match.

Background: Currently, the Accounts Payable Clerk receives one of the copies of the purchase order from an end inventory recipient with the employee's 'okay to pay'. If the shipping label were to be received by the Accounts Payable Clerk, she can perform a three-way match with the purchase order and invoice. This eliminates the risk of the end inventory recipient incorrectly reporting receipts. Furthermore, the Accounts Payable Clerk delegates resolution of any discrepancies in inventory receipts to the end inventory recipient, which casus a risk for misappropriation of assets.

Rationale:

Impact: *Minor* – The three-way match verifies that all information in the inventory purchasing process is accurate before payment is made. However, the impact of not performing this control would likely be minor to the District.

Likelihood: *Low* – The likelihood that the absence of the three-way matching would result in a risk to the District is considered to be low.

Recommendation: We recommend that the shipping label, reviewed for accuracy by the receiving agent, is provided to the Accounts Payable Clerk such that she can perform a three-way match prior to payment.

RECOMMENDATION 4:

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

Finding: There is a segregation of duties risk as the Accounts Payable Clerk can make vendor changes in the nVision system and also is involved in the payment process.

Background: The Accounts Payable Clerk runs the disbursement process for the District. Among her other responsibilities, she is in charge of adding vendors and modifying vendor information. When an employee submits a request form, the Accounts Payable Clerk has full access to modify or add without any mitigating controls.

Rationale:

Impact: *Significant* – There could be a significant impact related to this segregation of duties conflict. On an individual basis, the checks could be minor, however on a cumulative basis the amount could become material.

Likelihood: *Low* – The likelihood that this risk would have a significant impact on the District is minor due to the budgeting process in place at the District. There is a mitigating control in place due to the Assistant Superintendent of Business and Finance's review of the budget to ensure actual amounts do not exceed budgeted amounts. Furthermore, checks are sent to BOCES to be audited by their Claims Auditor. The District cannot mail the check until it is audited by BOCES.

Recommendation: We recommend that the Assistant Superintendent of Business and Finance review a vendor change report prior to each disbursement run.