

SYOSSET CENTRAL SCHOOL DISTRICT



***Internal Audit Report
on
Risk Assessment Update
For the Fiscal Year Ending
June 30, 2019***

TABLE OF CONTENTS

	<u>Page</u>
Risk Assessment Letter	
Executive Summary	1 – 3
Moderate Risk Items	4 – 5
Low Risk Items	5 – 12
Appendix A - Assessment of Risk and Testing Plan	

Board of Education
Syosset Central School District
Syosset, NY 11791

We have completed our risk assessment update of the Syosset Central School District (the “District”) for the fiscal year ending June 30, 2019. The objectives of the engagement were to assist the Board of Education (the “Board”) in ensuring that the District’s risks are identified and that appropriate internal controls are in place to mitigate those risks.

In connection with the development of the risk assessment, we have performed the following procedures:

- Gained an understanding of the internal controls for the following key business processes:
 - Governance and Planning
 - Accounting and Reporting
 - Cash Receipts
 - Cash Management
 - Revenue and Billings
 - Grants
 - Payroll
 - Human Resources
 - Benefits
 - Purchasing and Related Expenditures
 - Facilities and Capital Projects
 - Capital Assets
 - Food Service Operations
 - Information Technology
 - Student Related Data and Services
 - Transportation Services
 - Student Services
- Identified the risks that could inhibit the District in achieving its goals;
- Identified the internal controls that the District has in place that are designated to mitigate identified risks; and

- Identified key areas where the District can strengthen existing internal controls and/or create additional internal controls.

The results of our procedures are presented on the following pages.

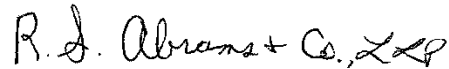
As noted, the purpose of our engagement was to assist you in improving the process by which you monitor and manage the risks that face your District. However, it is ultimately your responsibility to assess the adequacy of your risk management system.

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 on it.

We would like to acknowledge the courtesy and assistance extended to us by personnel of the District. We are available to discuss this report with the Board or others within the District at your convenience.

This report is intended solely for the information and use of the Board, the Audit Committee and the management of the District and is not intended to be and should not be used by anyone other than those specified parties.

Very truly yours,

A handwritten signature in black ink that reads "R.S. Abrams & Co., LLP". The signature is written in a cursive, flowing style.

R.S. Abrams & Co., LLP
November 25, 2019

**Syosset Central School District
Risk Assessment Update Report
For the Fiscal Year Ending June 30, 2019**

Executive Summary

This report serves to address the second requirement of Chapter 263 of the laws of New York, 2005, which requires all school districts to establish an internal audit function. The internal audit function requirement includes the engagement of a qualified audit firm or individual to make an initial assessment of risk surrounding the design of the District's internal controls, annual updates of the initial risk assessment, and testing of these controls on a periodic basis for operational effectiveness.

This risk assessment update is intended to provide management with information to enhance and strengthen the District's controls and to reduce the District's risk relating to its financial processing and reporting operations.

We determined the status for the current year's risk assessment update through various methods, including inquiry of appropriate District personnel involved in these processes, observation of the controls in place, results of internal control questionnaires related to the various business units and testing the controls where necessary to determine if they have been put in place and are functioning as intended.

Additionally, we have reviewed the results of reports issued by our firm during the period ending June 30, 2018 including a report on Procurement and Claims Processing, to determine if relevant controls have been put in place based on those reports.

The risk assessment requires an internal auditor to obtain an understanding of the risks associated with the various business processes within the District. This requirement involved two categories of risk as follows:

- **Inherent Risk** - the risk associated with the nature and type of transactions processed due to complexity, materiality, and quantity of the transactions.
- **Control Risk** – the risk that the internal control system is not adequately designed to prevent or detect errors or irregularities on a timely basis that could be material individually or when aggregated with misstatement in other balances or account classes.

The risk areas have been identified and appropriate risk levels have been determined. The risk levels are defined as follows:

- **High Risk** – these are areas identified as posing the greatest potential risk for the school district and which carry the highest priority. Any outstanding items will be carried over and re-evaluated in the following year's risk assessment.
- **Moderate Risk** – these are areas identified as to be of second level priority and will be addressed after the high-risk items are completed. Any outstanding items will be carried over and re-evaluated in the following year's risk assessment.
- **Low Risk** – these areas are considered lowest priority and will be addressed after the high and moderate risk items are completed.

**Syosset Central School District
Risk Assessment Update Report
For the Fiscal Year Ending June 30, 2019**

We have summarized our assessment of inherent risk and control risk for the current and prior year, as well as our testing plan, in our *Assessment of Risk and Testing Plan* (See Appendix A).

Process Review Summary and Proposed Business Processes

The following represents the business processes where we have provided internal audit services and the business processes we are proposing for period ending June 30, 2020:

Extensive System Reviews:

Fiscal Year Ending June 30, 2019:

- Benefits

Fiscal Year Ending June 30, 2018:

- Procurement and Claims Processing

Fiscal Year Ending June 30, 2017:

- Capital Assets

Fiscal Year Ending June 30, 2016:

- Extraclassroom

Fiscal Year Ending June 30, 2015:

- Human Resources

Fiscal Year Ending June 30, 2014:

- Governance and Planning

Fiscal Year Ending June 30, 2013:

- Cash Management

Fiscal Year Ending June 30, 2012:

- Transportation Operations
- Payroll Distribution

Fiscal Year Ending June 30, 2011:

- Information Technology
- Grants Administration

Fiscal Year Ending June 30, 2010:

- Medicaid Billing Compliance
- School Lunch Operations

Fiscal Year Ending June 30, 2009:

- Capital Assets
- Procurement and Claims Processing

**Syosset Central School District
Risk Assessment Update Report
For the Fiscal Year Ending June 30, 2019**

Extensive System Proposed:

Fiscal Year Ending June 30, 2020:

- Student Safety and Performance Data

**Syosset Central School District
Risk Assessment Update Report
For the Fiscal Year Ending June 30, 2019**

Moderate Risk Items

Current Year Review

INFORMATION TECHNOLOGY

DISASTER RECOVERY

Control Risk Level: **Moderate (M)**

Reason for Risk Level: We have assessed the level of control risk as moderate for the District's disaster recovery processes based on the following reasons:

- The District has not adopted a formal Disaster Recovery Plan. The District expects to have a completed Disaster Recovery Plan ready for implementation by the start of the 2020-2021 school year.
- The District has not verified the integrity of the accounting information system (AIS) backup performed by the vendor.

While our assessment of control risk is moderate based on the above factors and the following controls in place, these controls, while functioning effectively, did not justify a control risk lower than moderate since we considered the entire control environment in making our assessment.

- Backups are stored offsite at a secondary location for data security purposes.
- The District utilizes a Storage Area Network ("SAN") to perform incremental backups of District data on a nightly basis.

PERMISSIONS/ACCESS CONTROLS

Control Risk Level: **Moderate (M)**

Reason for Risk Level: We have assessed the level of control risk as moderate for the District's network and AIS user permissions/access control processes based on the following:

- Based on our review of the *Wincap User Security Profile Report*, we noted four individuals that have the ability to initiate and issue their own purchase orders within the system. Although this practice is prohibited by District procedures, internal controls within the system could be strengthened by removing initiation permissions or implementing additional approval requirements when these individuals act as initiators. A review of activity for the four individuals in the 2018-2019 school year indicated only one requisition was initiated, and this requisition was approved by a different individual.
- The District does not require network passwords to be changed periodically to reduce the risks involved with unauthorized access.
- The District does not have a lockout policy in place for the network or AIS.

**Syosset Central School District
Risk Assessment Update Report
For the Fiscal Year Ending June 30, 2019**

- We tested ten active user accounts noting one out of ten user accounts was not assigned to a specific individual and three out of ten accounts are associated with individuals who are no longer employed by the District.
- We noted eight user accounts in *WinCap* for which the date of last password change exceeded the 90 day threshold established by the District's AIS password policy.

Low Risk Items

Status of Prior Year Findings

FOOD SERVICE OPERATIONS

FUND BALANCE

Previous Control Risk Level: **Moderate (M)**

Prior Year Finding: During our prior year risk assessment update we noted as of June 30, 2018 the school lunch fund balance exceeded the three-month average expenditure level allowable by federal regulations 7CFR Part 2101(b) by \$218,226.

Current Year Status: During our current year risk assessment update we noted as of June 30, 2019 the school lunch fund balance did not exceed the three-month average expenditure level allowable by federal regulations 7CFR Part 2101(b).

As such, we have updated our assessment of control risk to low.

Updated Control Risk Level: **Low (L)**

CAPITAL ASSETS

ACQUISITION, DISPOSAL, AND CAPITALIZATION POLICY

Previous Control Risk Level: **Moderate (M)**

Prior Year Findings: During our prior year risk assessment update we noted the District's Policy No. 6800, *Fixed Asset Accounting*, did not specify the cost at which donated assets were recorded nor the types of assets included in computer hardware. The policy did not state if items purchased together would be recorded separately or grouped together for capitalization purposes.

Current Year Status: During our current risk assessment update we noted the District updated Policy No. 6800, *Fixed Asset Accounting*, to include the cost at which donated assets are recorded.

**Syosset Central School District
Risk Assessment Update Report
For the Fiscal Year Ending June 30, 2019**

We also noted this policy still does not state if items purchased together will be included separately or grouped together for capitalization purposes. However, this alone does not warrant a control risk higher than low, as we considered the entire control environment in making our assessment.

As such we have updated our assessment of control risk to low.

Updated Control Risk Level: **Low (L)**

Current Year Review

ACCOUNTING AND REPORTING

FINANCIAL ACCOUNTING, REPORTING, AND OVERSIGHT

Control Risk Level: **Low (L)**

Reason for Risk Level: We have assessed the level of control risk as low for the District's financial accounting, reporting, and oversight processes based on the following reasons:

- Journal entries are initiated by the Deputy Treasurer and reviewed and approved by the Business Administrator on a monthly basis.
- The District has procedures in place to review the journal entries after they have been entered into the accounting information system to ensure accuracy.
- The District prepares Treasurer Reports on a monthly basis for presentation at the Board of Education meetings.
- Treasurer reports, revenue status reports, appropriation status reports and warrants are reviewed by the Business Administrator at a minimum, on a monthly basis and any unusual balances are investigated and resolved.
- All journal entries selected for testing were properly supported and approved, in compliance with District procedures.

AUDITING

Control Risk Level: **Low (L)**

Reason for Risk Level: We have assessed the level of control risk as low for the District's auditing processes based on the following reasons:

- As per Education Law 2116-A, "each school district shall in a timely fashion post on its website, if any, the annual external audit report and the corrective action plan prepared in response to any findings contained in the annual external audit report or

**Syosset Central School District
Risk Assessment Update Report
For the Fiscal Year Ending June 30, 2019**

management letter, or any final audit report issued by the state comptroller.” We reviewed the District website to ensure the financial statements have been posted in a timely fashion.

- The District has appointed an independent external auditor, claims auditor, and internal auditor in accordance with state laws.
- The District has adopted for Board of Education policies to outline the responsibilities of the internal auditor, claims auditor, and external auditor.
- Request for proposals have been performed for the retention and appointment of the independent external auditor and/or internal auditor.
- Management of the District is diligent in responding to audit findings within the required time frame by filing a corrective action plan.
- The Board of Education accepts, by resolution, the independent auditor’s report annually, which is in compliance with laws and regulations.

FUND BALANCE MANAGEMENT

Control Risk Level: **Low (L)**

Reason for Risk Level: We have assessed the level of control risk as low for the District’s fund balance management processes based on the following reasons:

- The Assistant Superintendent for Business analyzes encumbrances and presents them to the Board for review of reasonableness on a monthly basis.
- The District mass encumbers all known obligations at the beginning of the fiscal year, including such items as salaries and fringe benefits, debt service obligations, utilities and other service contracts as a control to properly project the fund balance at the end of the fiscal year and to maintain budgetary control.
- Fund balance projections are prepared during the budget development process to adequately determine the appropriate funding of reserves and assigned fund balance at year end.

RESERVES AND FISCAL HEALTH

Control Risk Level: **Low (L)**

Reason for Risk Level: We have assessed the control risk for the District’s reserves and fiscal health as low based on the following reasons:

- NYS Real Property Tax Law 1318 limits the amount of unexpended surplus funds a District can retain to no more than 4% of the District’s budget for the general fund for the ensuing fiscal year. The District was within the legal limit of the unassigned fund balance for the fiscal years ending June 30, 2017, June 30, 2018 and June 30, 2019.
- For the past three fiscal years, the District’s general fund had an operating surplus

**Syosset Central School District
Risk Assessment Update Report
For the Fiscal Year Ending June 30, 2019**

which resulted in positive unassigned fund balance.

- We performed analytics on the District's audited financial statements for the past three fiscal years, including a review of fund balances, reserves, and operating results. Based on this review, we noted the following:
 - The District has consistently maintained a current ratio significantly better than 2 to 1, which is a standard indicator of fiscal health. For the fiscal year ending June 30, 2019 it was 2.79; for the fiscal year ending June 30, 2018, it was 3.11 and for the fiscal year ending June 30, 2017, it was 2.70. The standard indicator represents for every one dollar the District owes, it should have two dollars available in current assets. As can be seen, the District is above this standard indicator.

REVENUE AND BILLINGS

TUITION/HEALTH SERVICES

Control Risk Level: **Low (L)**

Reason for Risk Level: We have assessed the level of control risk as low for the District's tuition/health services processes based on the following reasons:

- The account clerk in the business office prepares the invoices for health services and non-resident students attending private schools within the District.
- The per pupil rate utilized by the District for health services is calculated by the account clerk and approved by the Business Administrator.
- Unpaid invoices are tracked by the account clerk and second notices are sent to the other Districts, if needed.

FOOD SERVICE OPERATIONS

FEDERAL AND STATE REIMBURSEMENT

Control Risk Level: **Low (L)**

Reason for Risk Level: We have assessed the level of control risk for the District's federal and state reimbursement procedures as low based on the following reasons:

- Federal and state reimbursements are submitted utilizing the New York Child Nutrition website, which alerts the District if the number of meals is inconsistent, allowing for timing corrections.

**Syosset Central School District
Risk Assessment Update Report
For the Fiscal Year Ending June 30, 2019**

- The District utilizes a comprehensive Point of Sale (POS) system called *NUTRIKIDS* within the school lunch operation that calculates the monthly reimbursement based on the number of free and reduced meals served.
- Controls within the POS system are strong, with students required to type in their I.D. number that drives their meal status (free, reduced or paid). By having strong controls within the POS system, the accuracy of the federal and state reimbursement requests are greatly enhanced.

SALES CYCLE

Control Risk Level: **Low (L)**

Reason for Risk Level: We have assessed the level of control risk for the District's sales cycle process as low based on the following reasons:

- The District has adopted policy No. 5405, *Student Wellness*, which sets forth the conditions that must be followed for the District to maintain participation in the National School Lunch Program.
- On a daily basis, a District employee picks up all bank deposits from the District's locations then delivers the deposits to the bank.
- The District's POS system that is in place does not provide the cashier with the cash balance that should be in the system; rather it is a "blind" system so the cashier has to input the total cash in the drawer before being provided with the overage or shortage amount, if any.
- We reviewed the 2018-2019 paid lunch equity calculation noting the number of paid lunches and price of paid lunches were properly recorded in calculating the weighted average price per meal.

ELIGIBILITY VERIFICATION

Control Risk Level: **Low (L)**

Reason for Risk Level: We have assessed the level of control risk for the District's eligibility verification processes as low based on the following reasons:

- The District has appropriate procedures in place for the review of student free and reduced meal applications.
- Following federal guidelines, the District performs the required annual income verification review of 3% of the free and reduced meal applications that were submitted.
- The District properly places students on the free and reduced program after receiving direct certification notifications from government agencies.

**Syosset Central School District
Risk Assessment Update Report
For the Fiscal Year Ending June 30, 2019**

- Reassessment of the free and reduced status for students is performed on an annual basis.
- The District makes available free and reduced meal applications by sending them home to the student's parents. Additionally, the registration office and the main offices in each location have applications available.
- The District adopted policy No. 8520, *Free and Reduced Price Food Services*, which addresses the District's procedures and responsibility for providing a free or reduced price lunch for all economically disadvantaged children.
- We reviewed fifteen free and reduced meal applications noting all applications were properly completed and that the child was properly classified as Free, Reduced, or Denied.

INFORMATION TECHNOLOGY

GOVERNANCE

Control Risk Level: Low (L)

Reason for Risk Level: We have assessed the level of control risk as low for the District's information technology governance processes based on the following reasons:

- The District adopted policy No. 8635, *Information Security Breach and Notification*, providing procedure to be followed in the event of a security breach, as required by State Technology Law §208.
- The District adopted policy No. 8630, *Computer Resources and Data Management*, to outline expectations including segregation of duties, report generation and approval, data input, passwords and permissions, remote access and data backup.
- The District adopted policy No. 4526, *Acceptable Use Policy*, which outlines appropriate use of computer technology as well as uses that are prohibited.

NETWORK SECURITY

Control Risk Level: Low (L)

Reason for Risk Level: We have assessed the level of control risk as low for the District's network security processes based on the following reasons:

- The District's network is protected with various security software suites, filters and firewalls to protect the network from viruses and unauthorized use, and is updated regularly.

**Syosset Central School District
Risk Assessment Update Report
For the Fiscal Year Ending June 30, 2019**

- The District does not allow employees to access the District's network via a Virtual Private Network (VPN). Currently, the Assistant Superintendent for Business is the only employee who has VPN access.
- Uninterrupted power supplies are installed at the network operating center ("NOC") to protect the District's network against power disruptions, and the NOC is climate controlled.

FINANCIAL APPLICATION SECURITY

Control Risk Level: **Low (L)**

Reason for Risk Level: We have assessed the level of control risk as low for the District's financial application security processes based on the following reasons:

- The Information Technology Specialist is responsible for the system administration of *WinCap*.
- Cloud based backup for the District's AIS data is managed by *WinCap*.
- Requests for access to the AIS must be initiated by an administrator and are granted by the Information Technology Specialist.
- A change in employment status by personnel in the human resources module of *WinCap* automatically results in the inactivation of the employee's *WinCap* account.

STUDENT SERVICES

SYSTEM TO TRACK AND ACCOUNT FOR CHILDREN ("STAC")

Control Risk Level: **Low (L)**

Reason for Risk Level: We have assessed the level of control risk for the District's STAC processes as low based on the following reasons:

- The Secretary to the Assistant Superintendent for Pupil Personnel Services reviews the processed STACs once the Automated Verification Listing ("AVL") has been received to determine if the STAC was properly completed for reimbursement.
- District staff attends training on how to utilize the online "System to Track and Account for Children" ("STAC") database and access to the STAC system is limited to only those who have an operational need to access it.
- The District evaluates out of District students attending New York State approved non-public institutions, students with 1:1 aides, and students for which the District has purchased an IEP required assistive-technology device. The District also evaluates students that receive at home behavior intervention services to determine if the student is eligible to be STAC.

**Syosset Central School District
Risk Assessment Update Report
For the Fiscal Year Ending June 30, 2019**

- The District calculates the total salary and benefits for all special education teachers and aides.

MEDICAID COMPLIANCE

Control Risk Level: **Low (L)**

Reason for Risk Level: We have assessed the level of control risk for the District's Medicaid billing procedures as low based on the following reasons:

- The District has implemented policy No. 9645, *Disclosure of Wrongful Conduct*, enabling employees to anonymously disclose any practices or billing procedures, deemed by the employee to be inappropriate, to the State's Compliance Officer.
- The District has adopted policy No. 6685, *Medicaid Compliance*, required for all districts that order, provide, bill, or claim \$500,000 or more from Medicaid in a 12-month period.
- A Compliance Officer has been appointed by the Board for the 2018-2019 school year.
- The District ensures all relevant employees receive the mandatory Medicaid certification training on a yearly basis.

**Syosset Central School District
Assessment of Risk and Testing Plan
For the Fiscal Year Ending June 30, 2019**

Legend

- Extensive system process review proposed
- ✓ Extensive system process review completed
- New processes evaluated
- * Control risk updated based on cycle report

H = High M = Moderate L = Low

BUSINESS PROCESSES & SUBPROCESSES	Inherent Risk		Control Risk				
	6/30/2018	6/30/2019	6/30/2018	6/30/2019	2018	2019	2020
GOVERNANCE & PLANNING							
Governance and Control Environment	H	H	L	L			
Budget Development and Administration	H	H	L	L			
Budget Transfers	M	M	L	L			
ACCOUNTING & REPORTING							
Financial Accounting, Reporting Oversight	H	H	L	L	•	•	
Auditing	M	M	L	L	•	•	
Fund Balance Management	H	H	L	L		•	
Reserves and Fiscal Health	H	H	L	L		•	
CASH MANAGEMENT							
Collection and Posting of Receipts	H	H	L	L			
Bank Reconciliations	H	H	L	L	•		
Banking Security	H	H	L	L			
REVENUE & BILLINGS							
Tuition/Health Services	M	M	L	L		•	
GRANTS							
General Processing and Monitoring	M	M	L	L			
Allowable Costs and Compliance	M	M	L	L			
PAYROLL							
Payroll Distribution	H	H	L	L			
Payroll Accounting and Reporting	H	H	L	L			
Tax Filings and Reconciliation Process	M	M	L	L			
Separation Payments	H	H	L	L			
HUMAN RESOURCES							
Employment Requisition and Hiring	M	M	L	L	•		
Employment Termination	M	M	L	L	•		
Employee Attendance	H	H	L	L	•		
BENEFITS							
Eligibility	M	M	L	L	•	✓	
Benefit Calculations	H	H	L	L	•	✓	
Retiree Health Insurance	H	H	L	M*	•	✓	
PURCHASING & RELATED EXPENDITURES							
Purchasing Process and Purchase Order System	H	H	L	L	✓		
Payment Processing	H	H	L	L	✓		
Travel and Conferences	H	H	L	L	✓		

**Syosset Central School District
Assessment of Risk and Testing Plan
For the Fiscal Year Ending June 30, 2019**

Legend

- Extensive system process review proposed
- ✓ Extensive system process review completed
- New processes evaluated
- * Control risk updated based on cycle report

H = High M = Moderate L = Low

BUSINESS PROCESSES & SUBPROCESSES	Inherent Risk		Control Risk				
	6/30/2018	6/30/2019	6/30/2018	6/30/2019	2018	2019	2020
FACILITIES & CAPITAL PROJECTS							
Facilities Maintenance	H	H	L	L			
Construction Planning and Monitoring	M	M	L	L			
Final Building Project Reports	H	H	L	L			
CAPITAL ASSETS							
Acquisition, Disposal, and Capitalization Policy	H	H	M	L	•	•	
Inventory Tracking	H	H	L	L	•		
FOOD SERVICE OPERATIONS							
Federal and State Reimbursement	M	M	L	L	•	•	
Sales Cycle and System	H	H	L	L		•	
Inventory and Purchasing	M	M	L	L			
Eligibility Verification	M	M	L	L		•	
Vending Machines	N/A	N/A	N/A	N/A			
Fund Balance	M	M	M	L	•	•	
EXTRA CLASSROOM ACTIVITY FUND							
General Controls	H	H	L	L			
Cash, Cash Receipts and Disbursements	H	H	L	L			
INFORMATION TECHNOLOGY							
Governance	M	M	L	L		•	
Network Security	H	H	L	L		•	
Financial Application Security	H	H	L	L		•	
Disaster Recovery	H	H	L	M		•	
Permissions/Access Controls	H	H	L	M	•	•	
STUDENT SAFETY AND PERFORMANCE DATA							
Student Attendance	H	H	L	L			■
Student Performance Data	H	H	L	L			■
Student Security and Safety	H	H	L	L			■
TRANSPORTATION SERVICES							
Student Transportation	M	M	L	L	•		
Transportation Contracts	L	L	L	L	•		
State Aid	H	H	L	L			
STUDENT SERVICES							
STAC	M	M	L	L		•	
Medicaid Compliance	H	H	L	L		•	