



Elwood Union Free School District

**Annual Risk Assessment Update
Pertaining to the Internal Controls
of District Operations**

June 2019

INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED UPON PROCEDURES

The Board of Education
Elwood Union Free School District

We have performed the procedures enumerated below, which were agreed to by the Elwood Union Free School District (the "District"), solely to assist the District. This agreed upon procedures engagement was performed in accordance with 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 for which this report has been requested or for any other purpose.

We have updated our June 2018 Risk Assessment by performing certain internal audit procedures pertaining to the time period starting July 1, 2018 through June 30, 2019. The updated Risk Assessment and related internal audit plan concentrates on the following key internal control areas:

- Governance and Planning
- Budget Development
- Accounting and Reporting
- Revenue and Cash Management
- Grants
- Payroll
- Human Resources
- Benefits
- Purchasing and Related Expenditures
- Facilities/Capital Projects
- Fixed Assets
- Food Service
- Extraclassroom Activity Fund
- Information Systems
- Student Data Management
- Pupil Personnel Services
- Transportation
- Security and Safety
- Cyber Security

Our engagement is limited in scope and will be confined to our agreed-upon procedures. We will not be conducting an audit or review of the district's financial statements and therefore we will not express an opinion or any other form of assurance on them.

At the end of our engagement, we will present the results of applying the agreed-upon procedures in the form of our findings in a report. Our accountants' report should be used only for the intent of the original users of this report, and will include a statement indicating that had we performed additional procedures, other matters might have come to our attention that would have been reported to you. As such, using this report for anything other than the original intent of the agreed-upon procedures could mislead the readers. You must notify us immediately if the original users of the report change.

Very truly yours,

Nawrocki Smith LLP

November 11, 2019

Elwood Union Free School District

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Pertaining to the Internal Controls
of District Operations

June 2019

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Elwood Union Free School District
Annual Risk Assessment
June 2019

Risk Assessment Overview

This Risk Assessment report provides a presentation of our view of the school district's risk pertaining to its financial operations. It gives the District's administration the information necessary to help optimize its overall performance. The report identifies, expresses, and prioritizes the key program risks so that the District's administration can focus on those areas most critical to its success. This analysis is used to define the District's risk profile. It will provide an overview of the risks facing the District's operations.

In accordance with the laws of New York, 2005, Chapter 263, all school districts and BOCES were required to establish an internal audit function no later than July 1, 2006 and be in operation no later than December 31, 2006. This function should include, at a minimum, development of a risk assessment of district operations, including but not limited to:

- a review of financial policies, procedures and practices
- an annual review and update of such risk assessment
- annual testing and evaluation of one or more areas of the District's internal controls
- preparation of reports which analyze significant risk assessment findings
- recommended changes for strengthening controls and reducing identified risk; and specifying time frames for implementation of such recommendations

Pursuant to Section 170.12 – Regulations of the Commissioner of Education – School District Financial Accountability, each school district must prepare a corrective action plan, approved by the Board of Education in response to findings to final reports issued by the internal auditor. This plan should include expected dates of implementation and should be filed with the New York State Education Department.

Internal Audit Objectives

The objectives of our engagement are as follows:

- develop an understanding of the critical business processes of the District within each functional area
- identify and qualify risks based on the understanding of the business processes and stated business rules
- identify stated controls that are currently in place to address those risks and ascertain if they are operating effectively
- recommend improvements in internal controls

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Scope and Methodology

The Board of Education has engaged Nawrocki Smith as the District's internal auditor. In compliance with New York State Laws, we have performed an annual update to the District risk assessment with respect to policies, procedures, and internal controls pertaining to District operations. The procedures applicable to the annual update of the District's risk assessment were performed for the period ending June 2019 and were carried out in order to determine an internal audit plan for fiscal year 2019/2020 and thereafter. This risk assessment will be updated annually to reflect any changes in the current control environment and the existing internal audit plan.

Our risk assessment consisted of the following methodology:

- Perform interviews of Administration and other appropriate personnel
- Document procedures within key Functional Areas
- Identify key controls and perform audit tests of those controls
- Assess effectiveness of the key controls
- Identification and review of organization structure
- Analysis of risks that are a threat to the achievement of objectives
- Create a risk profile and internal audit plan

In addition to the above procedures, we have also evaluated and considered the following within our overall risk assessment:

- District policies and procedures
- Recent focus of State Comptroller Audits
- Board of Education/Audit Committee Meetings
- Materiality to Financial Statements
- Changes in management or key personnel
- Financial reports provided to the Board
- External auditor management letters
- District corrective action plans
- Organizational chart and job descriptions

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Internal Audit Risk Assessment Update Summary

We have analyzed nineteen (19) Business Process areas within the District and have developed an internal audit plan based upon our assessment of each area. Each of the nineteen (19) Business Processes contains multiple categories for which an extensive cycle analysis will be performed during the proposed time period noted within the risk rating and internal audit plan. The plan as presented will be revised each year based upon the annual risk assessment update and events/requests that occur during the year which impact the priority of future internal audit services.

The results of our updated risk assessment are summarized below and in the tables presented on pages 5 through 6. We have utilized a “Low,” “Moderate,” and “High” control risk rating assessment scale of the District.

Current Year Rating

<u>Rating</u>	<u>Count</u>	
High	-	0.00%
Moderate	3	3.53%
Low	82	96.47%
Total	85	100.00%

Changes from Prior Year

<u>Category (*)</u>	<u>Count</u>	
“High” to “Low”	-	0.00%
“High” to “Moderate”	-	0.00%
“Moderate” to “Low”	1	50.00%
“Low” to “Moderate”	1	50.00%
“Moderate” to “High”	-	0.00%
Total	-	100.00%

(*) Refer to pages 5 through 6 for business process rating changes.

- The June 2019 risk assessment update contains five (5) current year recommendations.
- The June 2018 risk assessment update report contained five (5) recommendations:

<u>Status of Prior Year</u>	<u>Complete</u>	<u>In-Process</u>	<u>Not Complete</u>	<u>Total</u>
<u># of Recommendations</u>	1	4	-	5

We have summarized below our work plan for the 2019/2020 fiscal year:

Cycle Review:

- Grants

Other 2019/2020 Planned Internal Audit Services:

- Key Control/Other Testing (See “T” categories on Pages 5-6)
- External Audit Corrective Action Plan Monitoring
- Fixed Assets Cycle Recommendations Follow-Up
- Quarterly Internal Audit Status Reports
- Annual Risk Assessment Update as of June 2020
- Other Internal Audit Services at the Request of the District/BOE

Nawrocki Smith LLP, Certified Public Accountants and Business Consultants

**Elwood Union Free School District
Annual Risk Assessment**

Risk Rating and Internal Audit Plan

June 2019

√ = Internal Audit Services Provided
★ = Business Cycle Review Complete

X = Proposed Business Cycle Review
T = Limited Testing of Business Process

	Business Process	Business Process Categories	Inherent	RISK		YEAR OF SERVICE			
				Control		Prior Years	19-20	20-21	Subsequent Years
				17-18	18-19				
1	<u>Governance and Planning</u>	Governance and Control Environment	H	L	L				X
		Required Policies and Procedures	H	L	L	√			X
2	<u>Budget Development</u>	Budget Development	H	L	L				X
		Budget Monitoring and Reporting	H	L	L	√	T		X
3	<u>Accounting and Reporting</u>	Financial Accounting and Reporting	H	L	L	√	T		X
		External/Internal/Claims Auditing	H	L	L	√			X
		Fund Balance Management	H	L	L	√			X
4	<u>Revenue and Cash Management</u>	Real Property Tax	M	L	L				X
		State Aid	H	L	L				X
		Out of District Tuition/Reimbursable Expenses	M	L	L	√			X
		Use of Facilities	L	L	L	√			X
		Donations	M	L	L				X
		Vending Machines	H	L	L	√			X
		Accounts Receivable	H	L	L				X
		Cash Receipts	H	L	L	√			X
		Cash/Investment Management	H	L	L	√			X
		Petty Cash	L	L	L				X
		Bank Reconciliations	H	L	L	√	T		X
		Online Banking	H	L	L				X
5	<u>Grants</u>	General Processing	H	L	L		X		
		Grant Application	M	L	L		X		
		Expenditures and Allowable Costs	H	L	L		X		
		Cash Management	M	L	L		X		
		Reporting and Monitoring	H	L	L		X		
6	<u>Payroll</u>	Payroll Disbursements	H	L	L	★	T		
		Overtime Payments	H	L	L				
		Payroll Accounting and Reporting	H	L	L	★			
		Payroll Tax Filings	H	L	L	★			
		Payroll Reconciliation	H	L	L	★			
7	<u>Human Resources</u>	Employment Requisition/Hiring	H	L	L	★			
		Personnel Evaluation	H	L	L	★			
		Employee Attendance	H	L	L	★			
		Termination	H	L	L	★			
8	<u>Benefits</u>	Eligibility	H	L	L	★			
		Benefit Calculations	H	L	L	★			
		Patient Protection and Affordable Care Act	H	L	L	★			
		ERS / TRS	H	L	L	★			
		Retiree Benefits	H	L	L	★			
9	<u>Purchasing and Related Expenditures</u>	Purchase Order System/Vendor Database	H	L	L	★			
		Purchasing Process	H	M	L	★			
		Payment Processing	H	L	L	★			
		Employee Reimbursements	H	L	L	★			
		Credit Cards	H	L	L	★			

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Risk Rating and Internal Audit Plan

√ = Internal Audit Services Provided

X = Proposed Business Cycle Review

★ = Business Cycle Review Complete

T = Limited Testing of Business Process

	Business Process	Business Process Categories	RISK				YEAR OF SERVICE		
			Inherent	Control		Prior Years	19-20	20-21	Subsequent Years
				17-18	18-19				
<u>10</u>	<u>Facilities/ Capital Projects</u>	Facilities Maintenance and Work Orders	H	L	L	√	T	X	
		Capital Project Planning and Monitoring	M	L	L			X	
		Capital Project Funding and Payments	M	L	L			X	
		Recordkeeping and Reporting	M	L	L	√		X	
<u>11</u>	<u>Fixed Assets</u>	Inventory/ Capitalization Policy	H	L	L	★			
		Acquisition and Disposal	H	L	L	★			
		Inventory Process and Recordkeeping	H	M	M	★			
<u>12</u>	<u>Food Service</u>	Sales Cycle and System	M	L	L	★			
		Inventory and Purchasing	M	L	L	★			
		Free and Reduced Meals	M	L	L	★			
		Federal and State Reimbursement	H	L	L	★			
		Financial Reporting and Monitoring	H	L	L	★			
<u>13</u>	<u>Extracurricular Activity Fund</u>	General Controls	H	M	M	★			
		Revenue	H	L	L	★			
		Expenditures	M	L	M	★			
		Reporting	M	L	L				
<u>14</u>	<u>Information System</u>	Governance	H	L	L	★			
		Network Security	H	L	L	★			
		Application Security	H	L	L	★			
		Physical Security	H	L	L	★			
		Inventory	H	L	L	★			
		Disaster Recovery	H	L	L	★			
<u>15</u>	<u>Student Data Management</u>	Registration and Enrollment	H	L	L				X
		Student Attendance	H	L	L				X
		Student Performance	H	L	L				X
<u>16</u>	<u>Pupil Personnel Services</u>	Budgeting and Planning	H	L	L	★			
		STAC Reimbursement	H	L	L	★			
		Medicaid Reimbursement	H	L	L	★			
		RFP and Contracts	H	L	L	★			
<u>17</u>	<u>Transportation</u>	Fleet Inventory and Maintenance	H	L	L				X
		Bus Routing and Planning	H	L	L				X
		Labor and Supervision	H	L	L				X
		Contract Management	H	L	L				X
		State Aid	H	L	L	√			X
<u>18</u>	<u>Safety and Security</u>	Plan Development and Strategy	H	L	L				X
		Building Access and Security System	H	L	L	√	T		X
		Compliance and Incident Reporting	H	L	L				X
		Safety and Security Monitoring	H	L	L				X
<u>19</u>	<u>Cyber Security</u>	General Controls	H	L	L				X
		Information & Asset Security	H	L	L				X
		Vulnerability Assessment	H	L	L				X
		Incident Response & Recovery	H	L	L				X

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Inherent Risk - Inherent risk is the risk of a material misstatement in the un-audited information assuming the absence of internal controls procedures.

Control Risk - Control risk is the risk that a material misstatement in the un-audited information will not be detected and corrected by the management's internal control procedures on a timely basis.

Risk Assessment Observations and Recommendations

Current Year Observations and Recommendations

Extraclassroom Activity Fund

1. We noted multiple instances where the cash disbursement packet was missing an invoice or goods purchased were shipped to an employee's home address. We also noted multiple instances where the "Payment Form" approval was not dated or the "Payment Form" was approved subsequent to the purchase.

We recommend that all cash disbursement packets maintain sufficient supporting documentation and the goods be shipped to the appropriate district building. This ensures that payments made by Extraclassroom Activity Clubs are accurate and in accordance with District policies. We also recommend that "Payment Forms" be signed and dated prior to payment of invoice. This will ensure all cash disbursements are properly approved before being paid.

Purchasing

2. We noted multiple instances where a purchase order was approved prior to contract approval by the Board of Education.

We recommend that all contracts are approved by the Board of Education prior to making a purchase or payment for services.

Fixed Assets

3. The Business Office has not developed documented guidelines regarding the Fixed Assets Inventory process. Fixed Asset Inventory procedures are performed based upon past practices and verbal guidelines.

The Business Office should develop documented guidelines regarding the Fixed Asset Inventory process. Procedures should be periodically reviewed to ensure that the responsibilities are adequately performed by the District. The narratives attached to the Fixed Asset Cycle report should serve as supplemental enclosures to the District's documented procedures.

4. We noted that multiple assets selected for observation could not be traced to the location as per the Asset Management Platform or where an assets information was not up to date as per the asset tracking software. However, we were able to identify the location of the assets for physical observation. In addition, we noted that multiple assets selected for observation were not tagged.

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We recommend that any changes to asset location be updated immediately after an asset is moved and assigned to a new location. We also recommend that an in-house observation be performed on an annual basis. This will ensure that District inventory records are accurate and up to date and assets can be easily identified at any point in time.

5. We noted that multiple assets observed during our physical observation did not have the correct/ proper location, or description listed in the Asset Management Platform. In addition, we noted an instance where an asset observed during our physical observation did not have the proper tag number listed in the Asset Management Platform.

We recommend that the District make every effort to track all assets that have been tagged or moved and add them to the Asset Management Platform. This will ensure that all assets are properly identified and monitored by the District. We also recommend that an in-house observation be performed on an annual basis. This will ensure that District inventory records are accurate and up to date and assets can be easily identified at any point in time.

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Status of Prior Year Recommendations

We have performed follow-up internal audit services applicable to our previously issued risk assessment update report dated June 2018. The services we performed included observing and evaluating the implementation status of the District's action plan in respect to our risk assessment recommendations.

The June 2018 risk assessment update report identified five (5) recommendations within four (4) distinct business processes. The District has completed or taken action on five (5) of recommendations as follows:

<u>Business Process</u>	<u>Complete</u>	<u>In-Process</u>	<u>Not Complete</u>	<u>Total</u>
Benefits	1	-	-	1
Payroll	-	1	-	1
Food Service	-	2	-	2
Extraclassroom Activity Fund	-	1	-	1
Total	-	5	-	5

Benefits

1. The District has not developed documented guidelines or procedures regarding employee benefits. Employee benefit procedures are carried out based upon past practices and verbal guidelines provided by prior and current Administrators.

The District should develop documented guidelines and procedures regarding employee benefits. The documented procedures should be reviewed and updated annually to maintain relevance, and reflect regular changes in the employee benefits environment.

Status at June 2019: Complete

Payroll

2. We noted multiple instances where prior approval for overtime was not documented. The lack of documented pre-approval overtime limits the District's oversight of the hourly time reporting function. We also noted multiple instances where active employees did not have payroll activity in the past three fiscal years. In addition, we noted an instance where an employee was underpaid based on what was entered on their timesheet in comparison to the Nvision Contract and Rate Report.

We recommend that principals or immediate supervisors document their pre-approval for overtime on the employee's timesheet. In this manner, the controls over hourly time reporting may be enhanced. We also recommend that the Payroll Department investigate instances where there are active employees with no payroll activity for the prior three fiscal years and inactivate them within Nvision as deemed appropriate. In addition, we recommend that all timesheets are reconciled to the Nvision Contract & Rate Report prior to disbursement.

Status at June 2019: In-Process

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Food Service

3. We noted multiple instances where a signature required was missing from a cash collection log. The District requires two signatures for every time cash is collected from the vending machines.

We recommend that the Food Service Department review the dates of the missing signatures. We also recommend designating a third employee to sign the cash log as back-up for when one employee is absent.

Status at June 2019: In-Process

4. We noted a discrepancy between the count per vending machine meter readings and total cash collected for the months of December 2016 and January 2017. The cash collected exceeded the amount of goods sold as per the meter readings.

We recommend that the Food Service Department review and investigate the discrepancy noted above and make the appropriate corrective action to resolve the issue. We also recommend that the Food Service Department continue to reconcile vending machine meter readings to cash collected on a monthly basis.

Status at June 2019: In-Process

Extraclassroom Activity Fund

5. We noted multiple instances where Extraclassroom clubs did not maintain a roster of students, have a documented student treasurer, have a documented meeting schedule or did not maintain an itinerary or meeting minutes.

The District should consider providing training to all employees involved in Extraclassroom Activity Clubs. In addition, we recommend that the clubs maintain the following documents on an annual basis:

- *Rosters of students for all clubs.*
- *An elected and documented Student Treasurer.*
- *Schedule of meeting dates and times.*
- *Meeting minutes.*

Status at June 2019: In-Process

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Exhibits

Exhibit I History of Internal Audit Reports Issued

Exhibit II Internal Audit Plan for 2019/2020

**Elwood Union Free School District
Internal Audit - Nawrocki Smith
History of Internal Audit Reports Issued
July 2010 through June 2019
Exhibit I**

[illegible]

Elwood Union Free School District

Nawrocki Smith - Internal Audit

2019/2020 INTERNAL AUDIT PLAN

(Based upon June 2019 Risk Assessment Update)

Exhibit II

2019/2020 Cycle Review

Status

- Grants

Planned for Nov-19

Key Control Testing Areas

Status

- Budget Transfers
- Journal Entries
- Bank Reconciliations
- Payroll Disbursements
- Facilities Maintenance
- Building Access and Security Systems

Planned for Jan-20
Planned for Jan-20
Planned for Jan-20
Planned for Feb-20
Planned for Feb-20
Planned for Feb-20

Additional Internal Audit Services

Status

- External Audit Corrective Action Plan Monitoring
- Fixed Assets Cycle Report Recommendations Follow Up
- Annual Risk Assessment Update as of June 2020
- Quarterly Internal Audit Status Reports
- Other Internal Audit Services at the Request of the District

Planned for Mar-20
Planned for May-20
Planned for June-20
Quarterly
As Requested

Tentative On-Site Internal Audit Schedule

November 12	March 19
December 19	April 23
January 16	May 14
February 20	June 18